2003
ANNUAL REPORT

Kaman Strategies In Action

Since shortly after its founding in 1945, Kaman has embraced diversification as a means of balancing business risks and returns. Diversification, along with moderate use of debt and a conservative business philosophy, have helped ensure the flexibility to pursue market-building strategies *when near-term economic conditions are favorable as well as unfavorable.*

The company reports in three segments: Aerospace, representing 28% of 2003 sales, Industrial Distribution, 56%, and Music, 16%.

Kaman

Kaman Corporation Class A Common shares are traded on the Nasdaq Stock Market under the symbol "KAMNA." Kaman provides products and services through three business segments:

AEROSPACE

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

HIGHLIGHTS

Officially opened the newly expanded Jacksonville aircraft manufacturing plant.

Completed phase-out of the Moosup, Connecticut plant.

Kamatics, in cooperation with the company's German subsidiary, RWG, increased its presence at Airbus Industrie, particularly for the A380 program.

Divested the non-core electromagnetics business.

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.

HIGHLIGHTS

Acquired ISI of Birmingham, Alabama.

Opened or relocated branches to serve major markets in Virginia, Oklahoma and Texas.

Continued to expand the base of national accounts.

Expanded the product offering with new fluid power and motion control lines and other MRO products.

MUSIC

Kaman is the largest independent distributor of musical instruments and accessories, offering more than 15,000 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.

HIGHLIGHTS

Completed the first full year of Latin Percussion operations following acquisition in October 2002.

Successfully consolidated Latin Percussion's warehouse and operations into Kaman facilities.

Acquired Genz Benz, an amplifier company, in September 2003.

Achieved significant increase in customer utilization of its enhanced e-commerce capabilities.

FINANCIAL HIGHLIGHTS

In thousands except per share amounts	2003	2002
NET SALES	$ 894,499	$ 880,776
NET EARNINGS (LOSS)	19,405	(33,601)
TOTAL ASSETS	528,311	535,540
PER SHARE AMOUNTS:		
Net earnings (loss) per share		
Basic	$ .86	$ (1.50)
Diluted	.86	(1.50)
Dividends declared	.44	.44
Shareholders' equity	13.40	13.00

CORPORATE HIGHLIGHTS

Continued to implement strategies for each segment despite difficult market conditions.

Completed two acquisitions and divested a non-core business.

Held use of debt to moderate levels, consistent with conservative policy.

Completed 33 consecutive years of dividend payments to shareholders.

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

TO OUR SHAREHOLDERS,

Three years ago, Kaman Corporation set forth clear strategies to build each of its three business segments. Each strategy was tailored to the respective strengths of our Aerospace, Industrial Distribution and Music businesses. At the same time, our strategies were designed to reinforce and advance the culture that defines Kaman: superior service, quality products, lean thinking, operational excellence and conservative financial management.

Over the past three years, we have been focused on putting these strategies into action. For much of this period, including 2003, however, the operating environment has made this a challenging endeavor. The commercial aerospace markets in which we compete have been enduring an unusually severe downturn, and the manufacturing sector served by our Industrial Distribution segment has been operating at recessionary levels.

In addition to the economic environment, we have been touched by a number of issues in our Aerospace segment that we are continuing to work through. Despite these challenges, we have made meaningful progress, and the actions we have taken to implement our strategies have produced results that underscore their merits.

Importantly, as 2003 progressed, we began to see signs that we might be in the early stages of a recovery. In our Industrial Distribution segment, requests for proposals and order activity began to increase in an encouraging way. Our Music segment, which is strongly influenced by consumer spending trends, experienced a good holiday season. Our Aerospace segment, which is affected primarily by the commercial aerospace market, on the other hand, has yet to turn the corner. To keep up the momentum during this difficult period, we continued our divestiture

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of non-core businesses to free up capital, enhanced the competitive capability of our core businesses, and made strategic acquisitions that are contributing to operating results.

FINANCIAL RESULTS

In 2003, Kaman reported net earnings of $19.4 million, or $0.86 per diluted share, compared to a net loss of $33.6 million, or $1.50 net loss per diluted share, in the previous year. Results for 2003 include an after-tax gain of $10.6 million, or $0.48 per share, from the sale of the Electromagnetics Development Center, a non-core business, early in the year.

Results for the year 2002 include pre-tax charges of $86.0 million ($2.50 loss per diluted share) 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. The 2002 results also include a pre-tax gain of $1.9 million from the sale of the company's microwave products line, also a non-core business.

Net sales for 2003 were $894.5 million, compared to $880.8 million in 2002.

The company's heritage of conservative financial management has helped during this period of economic softness. We have continued to maintain low levels of long-term debt, providing flexibility to execute our strategies for each business segment.

AEROSPACE

In the Aerospace segment, Kaman is focused on executing three key strategies:

- *Expanding the Subcontract and Advanced Technology Products businesses through increased sales and marketing efforts and strategic acquisitions.*
- *Pursuing additional SH-2G opportunities in the international niche market for intermediate-size maritime helicopters.*
- *Further deploying lean thinking to improve manufacturing performance and reduce costs.*

For the year, the Aerospace segment generated an operating profit of $14.8 million, compared to an operating loss of $55.2 million in 2002, which included the $86.0 million of pre-tax charges. Results for 2003 include the effect of $3.6 million in ongoing relocation and re-certification costs related to the Moosup plant closing and $1.4 million in idle facilities and related costs. Sales for 2003 were $251.2 million, compared to $275.9 million the previous year, which included $16.2 million from the two divested businesses. The Australian program adjustment reduced segment sales in 2002 by $6.5 million. Acquisitions completed in the last two years represented approximately 17.6% of 2003 sales.

CHALLENGES Throughout 2003, the performance of Kaman's Aerospace segment continued to be adversely affected by several factors, including costs associated with the transition of manufacturing from the Moosup, Connecticut plant to expanded facilities in Jacksonville, Florida,

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the current weak market for commercial airliners which has caused order stretch-outs and a lower volume of deliveries than anticipated for certain Boeing programs, and the lack of new helicopter orders. These conditions, combined with the stop-work mode for the MD Helicopters, Inc. subcontract program (in which the company has a large investment), have resulted in lower sales, which in turn has resulted in overhead and general and administrative expenditures being absorbed at higher rates by active aerospace programs. This has led to generally lower profitability or losses for these programs. Segment results were also affected by delays in qualification testing for the Joint Programmable Fuze (JPF) program.

PROGRESS Kaman's most significant strategic initiative in 2003 was the relocation of manufacturing to our expanded aerospace manufacturing facility in Jacksonville, Florida. This 200,000 square-foot facility replaces the company's old and outdated plant in Moosup, Connecticut. Our investment in Jacksonville reflects our commitment to emphasize aircraft structures and components as a core business and focal point for future growth. While the transition to Jacksonville and phase-out of Moosup have entailed additional costs that we believe to be temporary, we think that the result will bring substantial opportunity for us to successfully compete for both commercial and military aerospace business.

The company also believes it is making progress on the JPF program, which is being developed for the U.S. Air Force and U.S. Navy by the company's Dayron operation. In the fourth quarter of 2003, Kaman completed the contractor portion of qualification testing and the customer has resumed its portion of the qualification testing at Eglin Air Force Base with positive early results. This program is expected to be an important contributor to our Aerospace segment sales and operating profits once final qualification is completed and an order stream is established.

Another bright spot for the year was the continued strong performance of our specialty bearing maker, Kamatics. Kamatics products are on most military and commercial aircraft in production today.

Production of the eleven SH-2G(A) helicopters for the Australian program is essentially complete. As we have previously reported, the aircraft lack the full Integrated Tactical Avionics System (ITAS) software and progress is continuing on this element of the program. In September, the Royal Australian Navy began the process of provisional acceptance of the aircraft after receiving a decision to proceed from the Australian government. The company expects to be able to deliver the full capability of the ITAS weapons system software in late 2004 with final acceptance anticipated in 2005. While the company believes its reserves are sufficient to cover estimated costs to complete the program, final development of the software and its integration are yet to come, and these are complex tasks.

During the year, we completed work on the refurbishment of four SH-2G helicopters granted by the U.S. government to Poland. Under related contracts, Kaman is providing spare parts and

Kaman's most significant strategic initiative in 2003 was the relocation of manufacturing from Moosup, Connecticut to our expanded facility in Jacksonville, Florida. This investment reflects our commitment to emphasize aircraft structures and components as a core business.

training for Polish pilots, sensor operators and maintenance personnel. The aircraft became operational in October 2003 aboard two Polish Navy FD-7 class frigates.

The company also continued to market its existing K-MAX aircraft inventory, which was written down to an estimated fair market value in 2002, using sales and short-term leasing programs. During 2003, two K-MAX helicopters were leased and two others were converted from leases to sales.

Notwithstanding the issues being faced by our Aerospace segment, this business is strategically important to Kaman's future and we consider it an area of opportunity for a return to sales growth and improved operating performance.

INDUSTRIAL DISTRIBUTION

Our strategies for growth in this segment, Kaman's largest in terms of revenue, involve:

- *Expanding geographic coverage in major industrial markets that increase Kaman's ability to compete for regional and national accounts.*
- *Providing industry leadership in e-commerce initiatives.*
- *Further enhancing operating and asset utilization efficiencies throughout the enterprise.*

Industrial Distribution segment operating profits for 2003 were $12.7 million, compared to $12.3 million the previous year. Sales in 2003 were $497.9 million, including $6.5 million from a 2003 acquisition, compared to $477.2 million in 2002.

CHALLENGES Our Industrial Distribution segment tends to perform in line with the national economy and is directly affected by national macroeconomic variables such as the percentage of plant capacity utilization and industrial production indices. During periods of robust economic expansion, the business generally enjoys significant operating leverage. When there is weakness in the manufacturing sector, such as we experienced for much of 2003 (and, in general, since the fourth quarter of 2000), the segment typically faces both cost and pricing pressures. During 2003, we continued to keep a close eye on costs and working capital investment, which helped performance. In addition, the industry's practice of suppliers offering incentives continued to be a major contributor to the company's operating profits.

PROGRESS In recent years, Kaman has positioned its Industrial Distribution business to take advantage of an important trend: large companies seeking to centralize purchasing through suppliers that can service their plant locations on a regional or national basis. Five years ago, our reach extended to 55 of the top 100 industrial markets in the U.S. By the end of 2003, we were operating in 70 of those markets.

Our 2003 geographic expansion reflects both acquisitions and new branch openings. In October 2003, we acquired ISI, a Birmingham, Alabama-based distributor of bearings,

Five years ago, our reach extended to 55 of the top 100 industrial markets in the U.S. By the end of 2003, we were operating in 70 of those markets. Our geographic expansion reflects both acquisitions and new branch openings.

conveyors, electrical, fluid power and power transmission components used by manufacturing, mining, steel, lumber, pulp and paper, food and other industries.

In addition to its Birmingham facilities, the acquisition of ISI brings us branches in Montgomery, Decatur and Muscle Shoals, Alabama, and in Pensacola, Florida. Kaman also strengthened its presence in the Southeast and Southwest with new or relocated branches that bring the company into the Richmond, Virginia, and Dallas, Texas markets.

As we selectively expand our presence across North America, our service culture and mix of value-added services is helping us to increase our roster of national and regional accounts. Significant recent new accounts include Campbell Soup, GAF and Phelps Dodge.

The Industrial Distribution business continues to be increasingly important to the overall success of Kaman. The infusion of capital for key acquisitions is proving to be a wise investment and, coupled with a recovering economy, promises both growth and earnings improvement.

MUSIC

Kaman is building on its leadership in the Music business through three core strategies:

- *Preserving the company's leadership position as the largest independent distributor of musical instruments and accessories.*
- *Building on Kaman's strong brand identity while adding new market-leading names to the company's offering of proprietary products.*
- *Leading the market with distribution systems and technologies that add value and reduce costs for the customer, suppliers and the company.*

Music segment operating profits for 2003 were $9.5 million, compared to $7.2 million in the prior year. Sales for the year 2003 were $145.4 million, including $18.6 million from Latin Percussion, which was acquired in October 2002, compared to $127.7 million the previous year, which included $3.7 million from Latin Percussion.

CHALLENGES Of Kaman's three business segments, Music is the one area in which the company has the dominant market share. Nevertheless, consumer tastes change, and it is imperative that the company provide the market with the products our customers want.

Success in this segment depends upon supplying retailers with the right array of hot-selling products at a variety of price points, and sophisticated information systems that facilitate easy and efficient ordering options, for both large and small customers.

PROGRESS Kaman has long been a leader in fretted instruments with premier and proprietary products such as the company's Ovation® and Hamer® guitars and Takamine® guitars under its exclusive distribution agreement. The 2002 acquisition of Latin Percussion, Inc., the world leader in hand percussion instruments, solidified Kaman's leadership in percussion,

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which also includes ownership or distribution rights to such well-known brands as Toca®, Gibraltar® and Gretsch® drums. All of these top-selling branded products are available only through Kaman. At the time we acquired Latin Percussion, we viewed it not only as an important strategic addition but also as a business that would have an immediate and positive impact on our operating profitability. In 2003, this proved to be the case.

Consistent with our strategy of further expanding our portfolio of product lines, we acquired Genz Benz Enclosures, Inc. in September 2003. Genz Benz is a small manufacturer of amplification and sound reinforcement equipment.

Music's progress in 2003 also included incremental enhancements to our e-commerce program, which continues to gain acceptance from an increasing number of our customers. With the addition of EDI programs for customers and suppliers as well as the continued popularity of our online ordering website, e-commerce is expected to grow as a defining competitive advantage for Kaman.

Our Music business continues to perform well while increasing its leadership in the marketplace, with ample capability and capacity for continued growth. Although this is our smallest business, it continues to earn its place in the Kaman segment line-up through astute business judgement and achievement.

STRATEGIES IN ACTION

The diversification of Kaman's business, combined with conservative financial management and an emphasis on controlling costs, have enabled the company to weather the challenging economic conditions we have faced in recent years. At the same time, staying committed to converting our strategies into action has kept us focused on building the market presence of our core businesses.

At Kaman, we've long said that these actions will position us for improved results as the economy recovers. We've been encouraged that the improving operating environment in late 2003 may be having just such an impact on our Industrial Distribution and Music segments. While the recovery in commercial aerospace has yet to materialize, we remain confident that our emphasis on expanding the subcontract and advanced technology products businesses is the right strategy to build on our considerable expertise and capabilities in aerospace design, engineering and manufacturing.

In closing, I extend my appreciation to our valued employees, shareholders, customers and suppliers and look forward to sharing our progress with all of you in the coming year.

PAUL R. KUHN
Chairman, President and Chief Executive Officer

3 Business Segments With Solid Strategies In Action

AEROSPACE

Strategy

Over its 58-year history, Kaman has developed an excellent reputation for its broad capabilities to serve domestic and foreign commercial and military aerospace markets through its well-known helicopter and aircraft subcontract work. One of the company's key strategies in recent years has been to place increased emphasis on the subcontract portion of those markets. Aerospace subcontracting now represents a larger portion of segment revenues than the traditional helicopter programs, largely due to a lack of new helicopter orders. When the commercial aviation market improves, the company expects this area to grow, and serving this market requires that the company have the most efficient, cost-effective plant facilities possible.

JOSEPH H. LUBENSTEIN
President, Kaman Aerospace

Action

In October 2003, Kaman's expanded Jacksonville, Florida facility officially opened for business. This modern complex, which has replaced the company's oldest and least adaptable plant in Moosup, Connecticut, was designed for production of aerospace products ranging from subcontracted parts to complex aircraft subassemblies such as the C-17 military transport structures pictured here. "Our new Jacksonville plant is a significant strategic move for us," said Joe Lubenstein, president of Kaman Aerospace. "Although the commercial aviation market remains difficult and costs associated with phasing out the old plant and ramping up the new one are significant, this move is expected to give us the facilities we need to successfully compete in a price-sensitive market."

AEROSPACE

Kaman produces fuzing devices for high-profile missile and bomb programs, such as the MK54 fuze for the U.S. Navy Standard Missile program.

For the past three years, Kaman has pursued growth in its Aerospace segment by focusing on three core strategies – expanding the subcontract and advanced technology products businesses through increased sales and marketing efforts and strategic acquisitions; actively seeking additional SH-2G opportunities in international niche markets for intermediate-size maritime helicopters; and further deploying "lean thinking" practices to improve manufacturing performance and reduce costs.

These strategies are important because they build on Kaman's strengths and tradition of innovation and quality. Our experience in prime helicopter programs, which can be traced to the earliest days of helicopter aviation, has given us the engineering and manufacturing capabilities typical of larger companies. Just as important, this experience has provided a platform to expand into other commercial and military aerospace niche markets. From its inception to recent times, Kaman has been best known for its helicopter programs. But Kaman, through both internal growth and acquisitions, has built an aerospace business with a much broader range of complementary capabilities.

In its aerostructures subcontracting business, Kaman manufactures major aircraft subassemblies and/or various detail parts for almost all of the Boeing airliners, the C-17 military transport and other types of aircraft. In addition, our Kamatics specialty bearing business produces proprietary self-lubricating bearings that are in wide use in commercial aircraft operated by the major and regional airlines of the world, and in numerous military aircraft. In 2002, the company expanded its presence in the aircraft bearing business with the acquisition of RWG, a German company whose largest customer is Airbus Industrie.

While the aerostructures market represents a significant opportunity for Kaman, the company also recognized that the dynamics of our marketplace were changing. The commercial aerospace business has been in a significant slump for more than two years, reflecting weak global economic conditions and the continued threat of terrorist attacks. We also saw that prime contractors are under intense and continuing pressure to lower their costs. While Kaman is confident that commercial aerospace markets will recover over time, it was not enough to wait for conditions to improve.

Dr. John C. Kornegay, President, Kamatics leads the team that produces the company's specialized proprietary bearing products. Kamatics products are found on most military and commercial aircraft being built today.

In short, to remain competitive, Kaman had to change. That was behind the company's decision to equip a new aerostructures subcontract facility in Jacksonville, Florida. The company began to transfer equipment to the expanded plant beginning in the second half of 2002, and it officially opened in the third quarter of 2003. The new 200,000 square-foot plant exhibits a significant amount of lean thinking in its cellular layout that supports a short lead time, low cost structure. We believe that once we achieve the expected lower cost of manufacturing at the plant, we will enhance our competitive position in the market while building on our already established reputation for quality and on-time delivery. The company has launched a considerable sales and marketing effort to introduce potential customers to the significant capabilities of the facility.

Kaman's Aerospace segment also encompasses our advanced technology products business, which designs and manufactures products and systems for a variety of military and commercial applications. Among them are safe, arm and fuzing devices for high-profile missile and bomb programs; high-reliability memory systems for critical airborne, shipboard and ground-based programs; and precision non-contact measuring systems for industrial and scientific uses. The 2002 acquisition of Dayron, which has the contract to develop a fuze for the U.S. Air Force and Navy Joint Programmable Fuze (JPF) program, was an important addition to this business. Securing the JPF program was the principal strategic reason for this acquisition, and is expected to generate substantial business for Kaman once final qualification has been achieved.

Kaman is working to build on its success in the field of self-lubricating bearings and other specialized products primarily for the commercial and military aircraft markets. In 2003, Kamatics, in cooperation with the company's German subsidiary, RWG, continued to increase its presence at Airbus Industrie, particularly for the A380 program. Kaman provides over 2,650 bearings for each of the certification aircraft, and expects to provide even more for the production aircraft.

INDUSTRIAL DISTRIBUTION

Strategy

Kaman's product array of mechanical and electrical power transmission products, bearings, materials handling equipment, fluid power, and linear motion products is vast and expanding, and our order accuracy and fulfillment statistics are among the best in the world. This is not enough. In the competitive markets of the 21st Century, many large companies are seeking to streamline supplier relationships and reduce costs by concentrating their purchases with a reduced number of suppliers that can provide broad regional and national coverage. A principal strategy for growing the Industrial Distribution segment, therefore, has been to expand our geographic coverage into those major industrial markets that increase our ability to compete for these multi-facility accounts.

T. JACK CAHILL
President, Kaman Industrial Technologies

Action

Kaman has been executing its market reach strategy through acquisitions and selective branch openings in key targeted geographic markets. Today, Kaman's Industrial Distribution segment serves 70 of the top 100 industrial markets in the United States, up from 55 markets just five years ago. As a result of the growing coverage and our competitive approach to the market, our roster of national accounts is growing. "We play a role in helping these companies in their quest for efficiency, productivity, and competitiveness," said Jack Cahill, president of Kaman Industrial Technologies. The result is that Kaman now distributes products and provides customized value-added services on a regional and national basis to companies having production plants and facilities that reach across the continent in a wide spectrum of the North American economy, from major food processing companies to basic industries producing brand name products that are recognized around the world – more than 50,000 customers. Kaman has the privilege of serving Pepperidge Farm at its modern world-class bakeries as part of its national contract with parent company, Campbell Soup, brought on line in 2003.

INDUSTRIAL DISTRIBUTION

Kaman helps customers find and eliminate costs through its Documented Savings Program.

The strong market position of the Industrial Distribution segment is reflected in a number of statistics. Kaman offers more than 1.5 million products manufactured by over 1,400 suppliers. Our base of customers exceeds 50,000 businesses operating in the U.S., Canada and Mexico. The company's network of more than 180 North American locations, while directly serving 70 of the top 100 markets with regional and local facilities, is able to provide same-day or next-day service to all of the top 100 industrial markets in the U.S.

Despite the severe manufacturing downturn that persisted well into 2003, Kaman made solid progress advancing its geographic expansion strategy, through both acquisitions and new branch openings. The October 2003 acquisition of Industrial Supplies, Inc. (ISI), helped fill in our presence in the Southeast, an industrial region of growing importance. Based in Birmingham, Alabama, the ISI acquisition brings us branches in Montgomery, Decatur and Muscle Shoals, Alabama, as well as in Pensacola, Florida.

Further highlighting the strategy to increase geographic reach, Kaman opened or relocated branches that bring the company into the Richmond, Virginia and Dallas, Texas markets.

Kaman's growing track record of winning regional and national accounts validates these strategic expansions. While a North American presence is an important factor in the fragmented industrial distribution industry, it is not enough to win and secure large customers. Customers are also looking for distributors who will be their partners in driving down costs and ensuring a smooth flow of products to their plants. This entails a great deal more than simply taking and fulfilling orders on a timely basis, which we certainly do very well – with an order accuracy rate at our distribution centers that tops 99.95% and fulfillment rates that are among the very highest in the industry. Rather, being a strong partner to manufacturing companies involves a broader range of services. At our national accounts, for example, we assign an account manager to service each major facility. These managers work directly with our customers' engineers and maintenance staffs to anticipate problems, share their extensive product knowledge and improve productivity. Our highly regarded Documented Savings Program allows customers to quantify cost reductions and efficiency enhancements in their operations.

Kaman distributes power transmission, motion control, material handling and electrical components, and a wide range of bearings to more than 50,000 customers in a diverse cross-section of North American industry.

Other significant strategies for the firm are to provide leadership in e-commerce initiatives and further enhance operating and asset utilization efficiencies throughout the enterprise. At Kaman, we have built an information technology infrastructure that enables us to interface with all of the major software systems used by our customers. As a result, many business processes that had traditionally been done by hand have been automated. This includes purchase order receipt, acknowledgement, electronic invoicing and funds transfer. In addition, our e-commerce website, while still a small portion of overall revenues, is serving an increasingly broad customer base. Technology is also an important tool to increase the efficiency with which we interact with suppliers and optimize our own investment in working capital. More than 65% of product orders to our suppliers are now placed electronically. In addition, Kaman is the industry leader in providing customers electronic access to supplier inventories. Through our website, we provide customers an immediate, no-waiting view of not only our own inventory availability, but our suppliers' available inventory as well. This award-winning technology is saving customers time and money and represents a competitive advantage for Kaman.

MUSIC

Strategy

Kaman has long been known for its line up of premier-brand proprietary products including the famous guitar lines Ovation®, Adamas®, Takamine® and Hamer® that made Kaman a powerful world-wide force in the industry. Today Kaman is also a leader in percussion instruments, with such brands as Latin Percussion (LP®), Toca®, Gretsch®, and Gibraltar®. It is part of the company's strategy to build on its strong brand identity while adding new market-leading products such as the recently added Sabian® cymbals and Elixir® guitar strings to our distribution catalogue. Today Kaman distributes more than 15,000 instruments and accessories to retailers ranging from large national chains to small independent stores.

ROBERT H. SAUNDERS, JR.
President, Kaman Music

Action

The October 2002 acquisition of Latin Percussion, Inc. (LP), the world's leading provider of conga drums and other hand percussion instruments, exemplifies Kaman's commitment to expand its portfolio of strong brands and preserve and enhance its position as an important manufacturer and the largest independent distributor of musical instruments and accessories. "LP has been an excellent complement to our marketing, design and distribution capabilities," said Bob Saunders, president of Kaman Music. "The integration of this business into the Music segment has been seamless, as we've folded LP's distribution and administrative functions into our existing operations while maintaining its strong product development and marketing capabilities as well as its artist relationships."

MUSIC

Kaman Music's signature product: our world-famous Ovation guitar

Kaman Music's strategies for preserving its market-leading position are to expand its portfolio of recognized brands and provide the industry with world-class distribution systems and technologies that add value and reduce costs for the customer, the supplier and the company.

These strategies are pursued from a position of strength. Kaman is the largest independent distributor of musical instruments and accessories. With its internationally recognized lines of Ovation, Adamas, Takamine and Hamer guitars, the company has long been a leader in fretted instruments. With the 2002 acquisition of Latin Percussion, Inc. Kaman also became the global leader in the hand percussion business. In addition to LP, our percussion products include such premier brand names as Toca hand percussion, Gibraltar percussion hardware, Gretsch drums and Sabian cymbals. In all, Kaman distributes more than 15,000 instruments and accessories to retailers of all sizes throughout North America.

The efficiency of Kaman's distribution and technology infrastructure was evident in the integration of Latin Percussion, which was a positive contributor to the segment's revenue and operating profitability in 2003. Almost immediately following the close of the transaction, the company was able to transfer distribution of LP's products to Kaman's four strategically located North American distribution centers. As an independent company, it often took LP three or four days to ship orders. As part of Kaman, orders that arrive by 4 p.m. are usually shipped the same day.

Kaman's busy warehouse operations ship musical instruments and accessory products for amateurs and professionals alike from a catalogue of over 15,000 items.

At the same time, Kaman recognized the significant talent and experience that came with the LP acquisition. LP had built the top brand in the market, and we were careful to maintain the strong product development and marketing expertise capabilities as well as artist relationships that have made it successful. All Kaman brands enjoy a significant marketing advantage due to professional musicians using its products.

Another step in 2003 was the September acquisition of Genz Benz Enclosures, Inc., a small well-known manufacturer of amplification and sound reinforcement equipment that complements our guitar lines. The quality and performance features of this line have an excellent reputation and have already won significant market recognition.

Advanced technology is a critical part of the business and is, therefore, the focus of considerable strategic effort. Leading the industry in e-commerce for the past four years, kmconline.com provides online ordering and inventory information for hundreds of customers. Our newly implemented EDI program provides for the electronic exchange of purchase orders, invoices and other critical data. Consistent with our strategic objective, these technologies benefit our customers, our suppliers and the company.

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FIVE-YEAR SELECTED FINANCIAL DATA

KAMAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS, SHAREHOLDERS AND EMPLOYEES)

	2003	2002	2001	2000	1999
OPERATIONS					
Net sales	$ 894,499	$ 880,776	$ 875,869	$1,031,234	$ 995,404
Cost of sales	670,150	723,243	673,782	774,264	751,291
Selling, general and administrative expense	207,857	199,453	188,752	202,319	201,807
Restructuring costs	—	8,290	—	(1,680)	4,132
Other operating income	(1,448)	(1,302)	(1,076)	(1,092)	(1,773)
Operating income (loss)	17,940	(48,908)	14,411	57,423	39,947
Net gain on sale of product lines and other assets	(18,163)	(2,299)	(2,637)	—	—
Interest expense (income), net	3,008	2,486	623	(1,660)	(1,614)
Other expense, net	1,265	1,831	761	1,363	1,088
Earnings (loss) before income taxes	31,830	(50,926)	15,664	57,720	40,473
Income taxes (benefit)	12,425	(17,325)	3,950	20,800	15,400
Net earnings (loss)	19,405	(33,601)	11,714	36,920	25,073
FINANCIAL POSITION					
Current assets	$ 418,851	$ 414,245	$ 442,651	$ 482,000	$ 460,111
Current liabilities	160,555	157,094	141,260	173,342	168,374
Working capital	258,296	257,151	301,391	308,658	291,737
Property, plant and equipment, net	51,049	61,635	60,769	63,705	64,332
Total assets	528,311	535,540	521,946	553,830	534,203
Long-term debt	36,624	60,132	23,226	24,886	26,546
Shareholders’ equity	303,183	291,947	333,581	332,046	316,377
PER SHARE AMOUNTS					
Net earnings (loss) per share – basic	$ .86	$ (1.50)	$ .52	$ 1.61	$ 1.07
Net earnings (loss) per share – diluted	.86	(1.50)	.52	1.57	1.05
Dividends declared	.44	.44	.44	.44	.44
Shareholders’ equity	13.40	13.00	14.97	14.92	13.68
Market price range	14.91	18.81	19.50	17.75	16.13
	9.40	9.42	10.90	8.77	10.06
AVERAGE SHARES OUTSTANDING					
Basic	22,561	22,408	22,364	22,936	23,468
Diluted	23,542	22,408	23,649	24,168	24,810
GENERAL STATISTICS					
Registered shareholders	5,509	5,634	5,869	6,136	6,522
Employees	3,499	3,615	3,780	3,825	4,016

RESULTS OF OPERATIONS

OVERVIEW

Kaman Corporation is composed of three business segments: Aerospace, Industrial Distribution, and Music.

The Aerospace segment's programs are conducted through three principal businesses, consisting of Aircraft Structures and Components, Advanced Technology Products, and Helicopter Programs. The Aircraft Structures and Components business involves aerostructure and helicopter subcontract work as well as manufacture of components such as self-lubricating bearings and driveline couplings for aircraft applications. For 2003, this business constituted 48% of Aerospace segment sales, the same level as 2002. The aerostructure subcontract element of this business continues to be an area of strategic emphasis for the corporation. The Advanced Technology Products business manufactures products involving systems, devices and assemblies for a variety of military and commercial applications, including safe, arm and fuzing devices for several missile and bomb programs; precision non-contact measuring systems for industrial and scientific use; electro-optic systems for mine detection and other applications; and high reliability memory systems for airborne, shipboard, and ground-based programs. For 2003, this business constituted 22% of segment sales compared to 21% for 2002. The Advanced Technology Products business is also an area of strategic emphasis for the corporation. Helicopter Programs include prime helicopter production along with spare parts and support. The helicopters produced by this business are the SH-2G multi-mission maritime helicopter and the K-MAX medium to heavy external lift helicopter. For 2003, this business constituted 30% of segment sales compared to 31% for 2002.

The Industrial Distribution segment is the third largest U.S. industrial distributor servicing the bearing, electrical/mechanical power transmission, fluid power, motion control and materials handling markets in the United States. This segment offers more than 1.5 million items, as well as value-added services to a base of more than 50,000 customers spanning nearly every sector of U.S. industry from about 200 branches and regional distribution centers in the U.S., Canada, and Mexico.

The Music segment, the name of which has been changed from "Music Distribution" in order to better express the breadth of the segment's other activities, is America's largest independent distributor of musical instruments and accessories, and is involved in some combination of designing, manufacturing, marketing and distributing more than 15,000 products from five facilities located in the United States and Canada, to retailers of all sizes for musicians at all skill levels.

Results for 2003 reflect weakness in Aerospace segment performance as well as conditions in the U.S. industrial economy which adversely affected the Industrial Distribution segment. Aerospace segment results reflect the impact of several factors, including adverse conditions in the commercial aerospace market, difficulties experienced in certain significant segment programs, including the MD Helicopters, Inc. ("MDHI") helicopter subcontract program, the Australia SH-2G(A) program, and the Joint Programmable Fuze ("JPF") program, and cost and operational issues associated with the transition from the segment's Moosup, Conn. manufacturing facility to its expanded facility in Jacksonville, Fla., during 2003. These factors have led to lower sales volume, which in turn has resulted in overhead and general and administrative expenses being absorbed at higher rates by active segment programs and this has led to generally lower profitability or losses for these programs. The segment is working to address these issues and is taking actions, where appropriate, to help bring its cost structure in line with the business base.

For discussion of the operations of, and factors affecting, each of these business segments, please refer to the specific discussions below.

TABULAR PRESENTATION OF FINANCIAL RESULTS

The following table summarizes certain financial results of the corporation and its business segments for calendar years 2003, 2002, and 2001:

SEGMENT INFORMATION (IN MILLIONS)

Year Ended December 31,	2003	2002	2001
Net sales:			
Aerospace	$251.2	$275.9	$301.6
Industrial Distribution	497.9	477.2	453.7
Music	145.4	127.7	120.6
	$894.5	$880.8	$875.9
Operating profit (loss):			
Aerospace	$ 14.8	$ (55.2)	$ 6.5
Industrial Distribution	12.7	12.3	13.2
Music	9.5	7.2	6.6
	37.0	(35.7)	26.3
Interest, corporate and other expense, net	(23.4)	(17.5)	(13.2)
Net gain on sale of product lines and other assets	18.2	2.3	2.6
Earnings (loss) before income taxes	31.8	(50.9)	15.7
Income taxes (benefit)	12.4	(17.3)	4.0
Net earnings (loss)	$ 19.4	$ (33.6)	$ 11.7

DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS — CONSOLIDATED

The corporation experienced an increase in consolidated net sales for 2003 compared to 2002 due to increased sales in the Industrial Distribution and Music segments. The increase in Music was primarily derived from the acquisition of Latin Percussion, Inc. Sales and operating profits for 2003 were adversely affected, however, by performance in the Aerospace segment.

Results for the year 2002 include pre-tax charges of $86.0 million (of which $52.7 million was non-cash) taken in the second quarter of that year 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 corporation's Moosup, Conn. plant, all items in the Aerospace segment. Net sales for 2002 included $61.7 million from acquisitions made during 2002 and 2001, and $16.2 million from two divested Aerospace segment business lines. Net sales for 2002 were also reduced by $6.5 million as a result of the adjustment for the Australia helicopter program. 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 the sales and pre-tax profit adjustment taken in the second quarter of that year, principally related to cost growth in the Australia helicopter program. Net sales for 2001 included sales from acquisitions of $8.0 million. Results for 2001 were adversely impacted by the above-described adjustment as well as continuing national economic difficulties that affected each of the corporation's business segments, but particularly the Industrial Distribution segment.

DISCUSSION AND ANALYSIS OF NET SALES BY BUSINESS SEGMENT

AEROSPACE SEGMENT

Aerospace segment net sales have decreased in each of the past three years – 9.0% in 2003, 8.5% in 2002 and 21.0% in 2001. Results for 2003 in each of the segment's businesses were adversely affected by a variety of factors, including the current weak market for commercial airliners, which has caused order stretch-outs and a lower volume of deliveries than anticipated for certain Boeing programs, lack of new helicopter orders, and the stop-work mode of the MDHI program, resulting in lower sales. The decrease in 2002 was due to the charge described above, declining revenues from both the New Zealand SH-2G program (which was completed in early 2003) and the Australia SH-2G(A) program, and a lack of new SH-2G or K-MAX helicopter sales.

AIRCRAFT STRUCTURES AND COMPONENTS – Aerostructures subcontract work involves commercial and military aircraft programs. Current programs include production of aircraft subassemblies and other parts for virtually all Boeing commercial aircraft and the C-17 military transport. This element of the Aerospace segment operation continues to be an area of strategic emphasis for the corporation. The low current and projected build rates for commercial airliners affect this business directly, and the market has become increasingly cost competitive on an industry-wide basis.

Helicopter subcontract work involves commercial and military helicopter programs. Commercial programs include multi-year contracts for production of fuselages for the MDHI 500 and 600 series helicopters and composite rotor blades for the MD Explorer helicopter. Total orders from MDHI have run at significantly lower rates than originally anticipated due to lower than expected demand. The corporation's investment in these contracts consists of $4.4 million in billed receivables and $16.4 million in recoverable costs – not billed (including start-up costs and other program expenditures) as of December 31, 2003. In 2003, the corporation received payments totaling $4.4 million, primarily for items shipped during 2003. The recoverability of unbilled costs will depend to a significant extent upon MDHI's future requirements through 2013. The corporation stopped production on these contracts in the second quarter of 2003, while working closely with this customer to resolve overall payment issues and establish conditions under which production could be resumed, including the timing thereof. Based upon MDHI's projected future requirements and inventory on hand at both MDHI and Kaman, this would not be expected to occur until the second half of 2004 at the earliest. Although the outcome is not certain, the corporation understands that MDHI management is pursuing strategies to improve its current financial and operational circumstances.

The segment's Kamatics operation manufactures proprietary self-lubricating bearings used in aircraft flight controls, turbine engines and landing gear and produces driveline couplings for helicopters. This business had increased sales in 2003 with military and commercial aftermarket sales helping to offset continued softness in commercial and regional aircraft manufacturing. Kamatics' products are in wide use in commercial airliners operated by the major and regional airlines, and increasingly, in military programs. Boeing is Kamatics' largest commercial customer.

ADVANCED TECHNOLOGY PRODUCTS – Advanced Technology Products is also an area of strategic emphasis for the corporation. In July 2002, the corporation acquired Dayron, a weapons fuze manufacturer for a variety of munitions programs. The principal motivation for the acquisition was a Dayron contract to develop a fuze for the U.S. Air Force and Navy Joint Programmable Fuze program. The JPF program is expected to generate substantial business once final qualification has been achieved and future production orders have been received. Final qualification testing was undertaken early in 2003 but test results at that time necessitated additional qualification work, which has delayed production unit sales and increased program costs. Final qualification testing resumed in the fourth quarter of 2003, however, with Dayron completing the portion of qualification testing required to be conducted by it as the contractor. The customer has now resumed its portion of the qualification testing with positive early results. Management expects that final qualification testing will be completed in March 2004.

HELICOPTER PROGRAMS – The segment's helicopter products include the SH-2G multi-mission maritime helicopter and the K-MAX medium-to-heavy external lift helicopter. The SH-2G helicopter represents the 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 the New Zealand and Polish navies.

The program for five retrofit SH-2G aircraft for New Zealand, which had a contract value of about $190 million, was completed early in 2003. A much smaller program for the refurbishment of four SH-2G aircraft

for Poland, which had a contract value of almost $7 million, was completed during 2003.

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 $723 million. The helicopter production portion of the program is valued at approximately $598 million, of which about 96% has been recorded as sales through December 31, 2003. As previously reported, this contract is now in a loss position due to increases in anticipated costs to complete the program which were reflected in the $25.0 million pre-tax charge taken in 2002 and the $31.2 million sales and pre-tax profit adjustment taken in 2001.

Production of all the SH-2G(A) aircraft is essentially complete. As previously reported, the aircraft lack the full Integrated Tactical Avionics System ("ITAS") software and progress is continuing on this element of the program. In September 2003, the RAN began the process of provisional acceptance of these aircraft after receiving a decision to proceed from the Australian government. The corporation expects to be able to deliver the full capability of the ITAS weapons system software in late 2004 with final acceptance anticipated in 2005. While management believes that the corporation's reserves are sufficient to cover estimated costs to complete the program, final development of the software by subcontractors and its integration, which is the corporation's responsibility, are yet to come and they are complex tasks.

The corporation continues to pursue 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.

With respect to its K-MAX helicopter program, the segment continues to pursue both a sale and short-term lease program for existing K-MAX aircraft inventory that was written down to estimated fair market value in 2002. As previously reported, this approach follows a 2002 market evaluation of the K-MAX helicopter program which had experienced several years of significant market difficulties. In connection with this decision, 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 earlier years when incurred. On a going forward basis, the corporation intends to maintain adequate inventories and personnel to support the fleet and additional aircraft will be produced only upon firm order by a customer. During 2003, two K-MAX helicopters were leased and two others were converted from leases to sales. The sales produced pre-tax profit of $2.1 million. Currently, there are seven K-MAX aircraft remaining available for sale, including the two K-MAX aircraft currently leased to customers.

INDUSTRIAL DISTRIBUTION SEGMENT

Industrial Distribution segment net sales increased 4.3% for 2003 and 5.2% for 2002 compared to a decrease of 12.9% for 2001. Net sales for 2003 included $6.5 million from an acquisition made early in the fourth quarter of the year. Net sales for 2002 included $38.0 million from acquisitions made during 2002 and 2001, while net sales for 2001 included $8.0 million from acquisitions made in 2001.

This segment is the third largest U.S. industrial distributor servicing the bearing, electrical/mechanical power transmission, fluid power, motion control and materials handling markets in the United States, offering more than 1.5 million items, as well as value-added services, to a base of more than 50,000 customers spanning nearly every sector of U.S. heavy and light industry from approximately 200 branches and regional distribution centers in the U.S., Canada, and Mexico.

Because the segment's customers include a broad spectrum of U.S. industry, this business is directly affected by national macroeconomic variables such as the percentage of plant capacity utilization within the U.S. industrial base, and the business tends to track the U.S. Industrial Production Index with a short lag. The segment has been adversely affected by conditions in the manufacturing sector that have existed since late 2000. During this period, cost controls and focus on working capital investment helped performance.

During 2003, economic conditions continued to be difficult and the segment performed in line with these circumstances, although it benefited from acquisitions completed in the past several years and from awards of new business at the national account level. Late in 2003, the segment began to experience increased requests for proposals and order activity; although industrial production levels remain far from the levels sustained several years ago, management is encouraged by signs of improvement in national industrial markets.

Success in the segment's markets requires a combination of competitive pricing and value-added services that save the customer money while helping it become more efficient and productive. Management believes that this segment has the appropriate platforms, including technology, systems management and customer and supplier relationships to compete effectively in the evolving and highly fragmented industrial distribution industry. The segment's size and scale of operations allow it to attract highly skilled personnel and realize internal operating efficiencies, and also to take advantage of vendor incentives in the form of rebates, which tend to favor the larger distributors. Management believes that the segment's resources and product knowledge enable it to offer a comprehensive product line and invest in sophisticated inventory management and control systems while its position in the industry enhances its ability to rebound during economic recoveries and grow through acquisitions.

In addition, over the past several years, large companies have increasingly centralized their purchasing through suppliers that can service all of their plant locations across a wide geographic area. As this trend continues, the segment has expanded its presence in geographic markets considered key to winning these customers through acquisitions in the upper Midwest and Mexico, and the selective opening of new branches. Early in the fourth quarter of 2003, the segment acquired a majority of the net assets and business of Industrial Supplies, Inc. ("ISI"), of Birmingham, Alabama, a distributor of a wide variety of bearing, conveyor, electrical, fluid power and power transmission components used by manufacturing, mining, steel, lumber, pulp and paper, food and other industries. As a result of the acquisition, the segment now operates four branches in Alabama and one branch in Florida formerly maintained by ISI, and has therefore expanded its presence in the increasingly important southeast industrial market. The segment also added branches in the Dallas and Richmond areas during 2003, so that as of the end of the year, the segment now serves 70 of the top 100 industrial markets in the country. Management's goal is to grow the Industrial Distribution segment by expanding into additional areas that enhance its ability to compete for large regional and national customer accounts.

As previously reported, this segment had experienced an increase in the number of "John Doe" type legal proceedings filed against it, 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. While management believes that the segment has good defenses to these claims, it is in the process of settling virtually all of the claims for amounts, which in the aggregate are immaterial, with contribution from insurance carriers. Management does not currently expect that these circumstances will have a material adverse effect on the corporation.

MUSIC SEGMENT (FORMERLY THE MUSIC DISTRIBUTION SEGMENT)

Music segment net sales increased 13.9% in 2003 and 5.9% in 2002 compared to a decrease of 6.2% in 2001. Net sales for 2003 included $18.6 million generated by Latin Percussion, the world leader in hand percussion instruments that was acquired in October 2002, while net sales for 2002 included $3.7 million from Latin Percussion. This segment's business is directly affected

by consumer confidence levels and although results for the segment's base business (i.e., without Latin Percussion) reflected a somewhat weak consumer environment, conditions improved toward the end of the year and the segment had good results overall, including a good Christmas season, particularly at the large national stores.

The segment's array of instruments includes premier and proprietary products, such as the Ovation® and Hamer® guitars, and Takamine® guitars under its exclusive distribution agreement. To enhance its market position, the segment has significantly extended its line of percussion products and accessories over the past two years, augmenting its CB, Toca® and Gibraltar® lines with the addition of an exclusive distribution agreement with Gretsch® drums in 2001 and the acquisition of Latin Percussion in 2002. In September 2003, the segment acquired Genz Benz Enclosures, Inc., a small manufacturer of amplification and sound reinforcement equipment. Genz Benz has been working with the segment for several years through an exclusive distribution agreement, so while the acquisition will not add immediate incremental sales, it does assure the segment of ownership of this product line. The segment continues to seek opportunities to add exclusive premier brand product lines that would build upon the segment's market position.

DISCUSSION AND ANALYSIS OF OPERATING PROFITS — CONSOLIDATED

As would be expected with any commercial business, operating profits is a key indicator utilized by management in its evaluation of the performance of its business segments. The corporation's segments, in total, had net operating profits of $37.0 million for 2003 compared to a net operating loss of $35.7 million in 2002. Total net operating profits were $26.3 million for 2001.

Results for 2003 reflect the impact on the corporation's businesses of continued weakness in the U.S. manufacturing sector and commercial aircraft markets and the increasingly competitive conditions resulting therefrom, in combination with the costs associated with the transition from the Aerospace segment's Moosup facility to expanded facilities in Jacksonville and the stop-work status of the MDHI program.

Another key performance indicator for management is each business segment's return on investment. Management defines "return on investment" as operating profits divided by average investment for each segment. Average investment is computed by combining equity, intercompany borrowings plus letters of credit and, for foreign subsidiaries, outside debt financings. The corporation's goals for return on investment are expressed as a range, with 15% at the lower end of the range. For 2003, the Music segment performed above the minimum percentage, while the Industrial Distribution and Aerospace segments performed below the minimum.

The 2002 results reflect difficult economic conditions in that year and include the second quarter pre-tax charge of $86.0 million described earlier. The 2001 results include the $31.2 million second quarter sales and pre-tax profit adjustment 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.

DISCUSSION AND ANALYSIS OF OPERATING PROFITS BY BUSINESS SEGMENT

AEROSPACE SEGMENT

Results for the year 2003 reflect the impact of the factors described previously (i.e., costs associated with the move from the Moosup facility to Jacksonville, the current weak market for commercial airliners, the absence of new helicopter orders, and the stop-work mode of the MDHI program) upon the Kaman Aerospace subsidiary, and include $3.6 million in ongoing relocation and recertification costs related to the move from Moosup to Jacksonville and $1.4 million in idle facilities and related costs, most of which relate to the Moosup facility. The result has been lower sales volume, which in turn has resulted in overhead and general and administrative expenses being absorbed at higher rates by active segment programs; this has led to generally lower profitability or losses for these programs. Management continues to evaluate Kaman Aerospace's cost structure,

including its manpower requirements, and action is being taken, where appropriate, to help bring cost structure in line with the business base. Management directed the move from Moosup, the corporation's oldest facility, to Jacksonville, a modern, expanded facility, in order to provide a lower cost base from which to compete in the aerostructures subcontract arena. This move was essentially completed in 2003. However, the transition has generated additional costs associated with the phase-out of Moosup, production man-hour performance in Jacksonville, which has not yet achieved the levels that had existed on an overall basis in Moosup, and the normal FAA and customer requirements to requalify manufacturing and quality processes in Jacksonville. These factors have resulted in lower profitability or losses in certain aerostructures programs. While these costs continue to be an issue going into 2004, the opportunity to operate at lower cost in Jacksonville remains evident and is an expectation for the future. The Jacksonville facility is ready to accept additional business, although that may take time to develop in the present environment.

Despite current circumstances, to date, management has elected to continue expenditures for longer-term competitiveness in the commercial aircraft market and to maintain its prime helicopter program capabilities.

For the year 2002, the Aerospace segment had an operating loss of $55.2 million, primarily due to the previously described $86.0 million charge. Included in the second quarter 2002 pre-tax charge was $11.0 million for the cost of phasing out the corporation's Moosup manufacturing plant. 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 a total of $2.2 million had been paid for 289 such separations as of December 31, 2003); 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). 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 profit adjustment in the Aerospace segment for that year and lower revenues from the Australia and New Zealand SH-2G helicopter programs.

INDUSTRIAL DISTRIBUTION SEGMENT

Results in this segment for each of the past three years reflect the weak economic performance in the U.S. manufacturing sector that has existed since the latter part of 2000. Because the segment's customers include a broad spectrum of U.S. industry, this business is directly affected by national macroeconomic variables such as the percentage of plant capacity utilization within the U.S. industrial base and the business tends to track the U.S. Industrial Production Index with a short lag. Particularly in this type of environment, vendor incentives in the form of rebates (i.e., vendors provide inventory purchase rebates to distributors at specified volume-purchasing levels) have been a major contributor to the segment's operating profits in each of the past three years. In addition, cost controls and focus on working capital investment helped performance.

MUSIC SEGMENT

Music segment operating profits for 2003 and 2002 reflect continued consumer spending in the music retail market and the positive effects of the acquisition of Latin Percussion.

NET EARNINGS AND CERTAIN EXPENSE ITEMS

For the year 2003, the corporation reported net earnings of $19.4 million or $0.86 per share diluted, including an after-tax gain of $10.6 million or $0.48 per share from the sale of its Electromagnetics Development Center ("EDC") in January 2003, compared to a net loss of $33.6 million, or $1.50 net loss per share diluted, in 2002. Net earnings for 2001 were $11.7 million, or $0.52 per diluted share. The 2002 and 2001 results each include the charges or adjustments previously described.

Selling, general and administrative expenses for the year 2003 were higher than for 2002, largely due to acquisitions and to increases in corporate expenses attributable to several items, including a reduction in group insurance liabilities for 2002 that did not recur in 2003, and growth in stock appreciation rights, pension, and general insurance expense. Selling, general and administrative expenses for 2002 were higher than for 2001, principally due to acquisitions.

For each of the years ended December 31, 2003 and 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 a reduction of surplus cash.

The consolidated effective income tax rate for the year 2003 was 39%. For 2002, there was a tax benefit calculated at approximately 34%, representing 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%, primarily due to reduced tax considerations on the Australian helicopter program.

For a discussion of Financial Accounting Standards Board Statements applicable to the corporation, please refer to the Recent Accounting Standards Note in the Notes to Consolidated Financial Statements of Kaman Corporation and Subsidiaries for the year ended December 31, 2003.

CRITICAL ACCOUNTING 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. Significant accounting policies are disclosed in the Notes to Consolidated Financial Statements of Kaman Corporation and Subsidiaries for the year ended December 31, 2003. The most significant areas currently 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 as a measurement basis either (1) a ratio that costs incurred bear to estimated total costs, after giving effect to estimates of cost to complete based upon most recent information for each contract, or (2) units-of-delivery. 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.

The percentage-of-completion method requires estimates of future revenues and costs over the life of a contract. In some cases, estimates of future revenues are based on projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires management's judgment. The complexity of certain programs, including the SH-2G(A) program for the Royal Australian Navy, the effects of the corporation's transition of manufacturing operations from Moosup to Jacksonville, and the impact on the absorption of overhead expenditures caused by a lower volume of deliveries than anticipated on certain programs, could affect the corporation's ability to precisely estimate future contract costs.

Specifically, the corporation is required to make significant estimates and assumptions related to its completion of a long-term contract with the Royal Australian Navy. The remaining estimates are generally associated with the completion of the Integrated Tactical Avionics System software and its integration into the aircraft. While the corporation believes its reserves are sufficient to cover estimated costs to complete the program, final development of the software by subcontractors and its integration, which is the corporation's responsibility, are yet to come, and these are complex tasks. Technical difficulties could increase costs and/or delay customer payments. See the Accounts Receivable section of the Critical Accounting Estimates for additional RAN program information.

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.

The corporation had $74.8 million and $72.5 million of trade receivables at December 31, 2003 and 2002, respectively. The allowance for doubtful accounts for trade receivables was $3.3 million and $2.9 million at December 31, 2003 and 2002, respectively. Accounts receivable written off, net of recoveries, in years 2003 and 2002 were $1.2 million and $2.2 million, respectively. In addition to trade receivables, the corporation had $118.4 million and $123.4 million of amounts due from government and commercial contracts at December 31, 2003 and 2002, respectively.

The corporation evaluates, on an ongoing basis, the recoverable costs associated with its government and commercial contracts. Specifically, the corporation had an investment of billed receivables and recoverable costs not billed of $20.8 million as of December 31, 2003 with its customer, MDHI. The recoverability of this investment will depend to a significant extent upon MDHI's future requirements through 2013. Should these future requirements not be realized, an adjustment to the then remaining balance could be required.

In applying the guidance of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS 5"), the corporation's management has concluded that some level of impairment to the MDHI investment, while not probable, is reasonably possible. In assessing the range of potential loss, current program estimates project the entire amount of the corporation's current investment to be recoverable over the full term of the contracts, which makes the minimum end of the potential loss range zero. Therefore, no impairment to the carrying value of the corporation's investment in the MDHI programs has been recorded to date.

In addition, the corporation had $60.8 million of recoverable costs not billed with the RAN as of December 31, 2003, which will be due and payable as the segment satisfactorily completes the program. The final amount of recoverable costs not billed will be offset by $19.0 million of advances on contracts previously paid to the corporation by the RAN. Also, $20.9 million will be required to fund the program's accrued contract loss as of December 31, 2003.

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.

The corporation had $179.0 million and $164.7 million of inventory as of December 31, 2003 and 2002, respectively. Inventory valuation at the Industrial Distribution and Music segments generally requires less subjective management judgment than valuation of certain Aerospace segment inventory, including the K-MAX inventory. Based upon a market evaluation in 2002, the corporation wrote down its K-MAX inventory in the amount of $46.7 million in that year. The corporation believes its K-MAX inventory of $33.4 million at December 31, 2003 is stated at net realizable value, although lack of demand for this product in the future could result in additional write-downs of the inventory value.

VENDOR INCENTIVES

The corporation's Industrial Distribution segment enters into agreements with certain vendors providing for inventory purchase incentives that are generally earned upon achieving specified volume-purchasing levels. The segment recognizes these incentives as a reduction in cost of goods sold. Supplier incentives have been an important contributor to the segment's operating profits. While management believes that vendors will continue to offer incentives, there can be no assurance that the Industrial Distribution segment will continue to receive comparable amounts in the future.

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.

The corporation has made a number of acquisitions during the last three years, which have involved goodwill and other intangible assets. The total value of these items, including previously recorded goodwill and other intangible assets, was $53.3 million and $51.0 million as of December 31, 2003 and 2002, respectively. Based upon the corporation's analysis, management believes these assets are not impaired as of December 31, 2003.

PENSION PLAN ACTUARIAL ASSUMPTIONS

The corporation's pension benefit obligations and related costs are calculated using actuarial concepts within the framework of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. These critical assumptions are evaluated annually. Other assumptions involve demographic factors such as retirement, mortality, turnover and rate of compensation increases.

The discount rate enables management to state expected future cash flow as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Kaman Employees' Pension Plan used a discount rate of 7.0% in 2003 and 7.5% in 2002 for purposes of calculating net periodic benefit cost. A one percentage point decrease in the assumed discount rate would increase annual pension expense in 2003 by $1.7 million. A one percentage point increase in the assumed discount rate would decrease annual pension expense in 2003 by $3.2 million.

To determine the expected return on plan assets, management considers the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense. The expected return on plan assets was 8.5% and 8.6% at December 31, 2003 and 2002, respectively. A one percentage point increase/decrease in the return on pension plan asset assumption would decrease/increase annual pension expense in 2003 by $3.7 million.

LIQUIDITY AND CAPITAL RESOURCES

DISCUSSION AND ANALYSIS OF CASH FLOWS — CALENDAR YEAR 2003

Management assesses the corporation's liquidity in terms of its ability to generate cash to fund operating, investing and financing activities. Cash flow generation is another key performance indicator reviewed by management in evaluating business segment performance. Significant factors affecting the management of liquidity might include cash flows generated from or used by operating activities, capital expenditures, investments in the business segments and their programs, acquisitions, dividends, adequacy of available bank lines of credit, and factors which might otherwise affect the corporation's business and operations generally, as described below under the heading "Forward-Looking Statements". 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 next twelve-month period. Management is aware that earnings for 2003 were weak and the principal source of that weakness is in the Aerospace segment which has been adversely affected by conditions in the commercial aerospace market. Aerospace management is working to address these issues through its sales efforts as well as evaluation of its current cost

structure with the goal of improving operating profits and cash flow generation.

Operating activities provided cash in the amount of $26.6 million for 2003. These results reflect reductions in accounts receivable in the Aerospace segment and in inventories in both the Industrial Distribution and Music segments, and increases in accounts payable in the Industrial Distribution segment, offset by increases in inventories in the Aerospace segment, largely related to the K-MAX program. The K-MAX inventory increase relates primarily to production of rotor blades in anticipation of their use for replacement purposes and investment in anticipated overhauls, neither of which circumstances occurred to the extent expected during 2003.

The largest element of cash flows provided from investing activities for 2003 consisted of the proceeds from the sale of the EDC operation. Approximately $8 million was used for acquisitions during the year.

Cash used in financing for 2003 consisted of reductions in long-term debt and payments of dividends to shareholders.

CONTRACTUAL OBLIGATIONS

The following table summarizes certain of the corporation's contractual obligations as of December 31, 2003:

	PAYMENTS DUE BY PERIOD (IN MILLIONS)				
CONTRACTUAL OBLIGATIONS	TOTAL	WITHIN 1 YEAR	1–3 YEARS	3–5 YEARS	MORE THAN 5 YEARS
Long-term debt	$ 38.3	$ 1.7	$20.0	$ 3.3	$13.3
Operating leases	29.2	13.0	10.3	3.4	2.5
Purchase obligations [A]	142.3	77.4	19.8	14.6	30.5
Other long-term liabilities [B]	28.0	2.5	4.6	3.0	17.9
Total	$237.8	$94.6	$54.7	$24.3	$64.2

(A) This category includes purchase commitments with suppliers for materials and supplies as part of the ordinary course of business, consulting arrangements and support services. Only obligations in the amount of at least fifty thousand dollars are included.

(B) This category includes obligations under the corporation's supplemental employees' retirement plan and deferred compensation plan and a supplemental disability income arrangement for one former company officer.

OFF–BALANCE SHEET ARRANGEMENTS

The following table summarizes the corporation's off-balance sheet arrangements, which consist principally of letters of credit and obligations to pay earn outs with respect to certain acquisitions:

	PAYMENTS DUE BY PERIOD (IN MILLIONS)				
OFF–BALANCE SHEET ARRANGEMENTS	TOTAL	WITHIN 1 YEAR	1–3 YEARS	3–5 YEARS	MORE THAN 5 YEARS
Outstanding letters of credit under the Revolving Credit Agreement	$ 29.8	$26.8	$ 3.0	$ —	$ —
Other outstanding letters of credit	7.0	7.0	—	—	—
Acquisition earn outs [A]	25.0	—	—	—	—
Total	$ 61.8	$33.8	$ 3.0	$ —	$ —

(A) The obligation to pay earn out amounts depends upon the attainment of specific sales goals for Dayron, a company acquired in 2002. Since it is not feasible to estimate exactly when such payments may become due, they are stated in the aggregate only. One million dollars was accrued for such earn out payments in 2003.

DISCUSSION AND ANALYSIS OF CASH FLOWS — CALENDAR YEARS 2002 AND 2001

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, $26.8 million was expected to be paid in future years and $6.5 million consisted of a write-down of receivables.

During 2002, cash was used by investing activities principally due to the acquisitions of Delamac in the Industrial Distribution segment, Dayron and RWG in the Aerospace segment, and Latin Percussion in the Music segment and by the purchase of items such as machinery and computer equipment; cash in the amount of approximately $51.2 million was used for the acquisitions. 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 profit adjustment in the Aerospace segment, and reductions in inventories in the Industrial Distribution and Music segments. This was offset by decreases in accounts payable in the Aerospace and Music 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 in the Industrial Distribution segment, the Plastic Fabricating Company, Inc. stock acquisition in the Aerospace segment, 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 cash and cash equivalents at December 31, 2001 with an average balance of $34.0 million for the year.

OTHER SOURCES/USES OF CAPITAL

In the past two years, the corporation has sold two non-core portions of the Aerospace segment in order to free capital for other uses. Specifically, in January 2003, the corporation sold EDC, its electric motor and drive business that had sales of approximately $14 million in 2002, for $27.5 million. 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.

At December 31, 2003, the corporation had $21.6 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, 2003, a total of about 268,850 shares had been repurchased since inception of this replenishment program.

FINANCING ARRANGEMENTS

Total average bank borrowings for the year 2003 were $43.0 million compared to $23.8 million for 2002 and $2.5 million in 2001.

The corporation maintains a revolving credit agreement (the "Revolving Credit Agreement") with several banks that provides a $150 million five-year commitment scheduled to expire in November 2005. Prior to November 2003, the corporation also maintained a $75 million "364-day" annually renewable facility as part of the Revolving Credit Agreement. Both portions of the Revolving Credit Agreement provide for interest at current market rates. In view of the longer term attractiveness of fixed rates in the current environment and the fact that the "364-day" facility had never been used, the corporation permitted it to expire in November 2003. In the third quarter of 2003, the Revolving Credit Agreement was amended to give potential lenders under a new fixed rate financing of up to $75 million the same covenant and guarantee protections that the Revolving Credit Agreement lenders currently possess. Facility fees are charged on the basis of the corporation's credit rating which is a Standard & Poors BBB investment grade rating.

Management believes that such a rating is favorable for a company of its size. Under the terms of the current Revolving Credit Agreement, if this rating should decrease, the effect would be to increase interest rates charged and facility fees.

The most restrictive of the covenants contained in the Revolving Credit Agreement, which the corporation monitors closely, 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%. The non-cash portion of the 2002 second quarter charges, up to $52.5 million, were excluded from the financial covenant calculations during the four quarters ended March 31, 2003.

In connection with the acquisition of RWG, the corporation established a €9.5 million term loan and revolving credit facility (the "Euro Credit Agreement") with Wachovia Bank, National Association ("Wachovia"), one of its Revolving Credit Agreement lenders having offices in London. In general, the Euro Credit Agreement contains the same financial covenants as the Revolving Credit Agreement described previously and the term of the Euro Credit Agreement expires at the same time as the Revolving Credit Agreement. During the third quarter of 2003, the Euro Credit Agreement was amended to conform with the 2003 amendment to the Revolving Credit Agreement. Also in the third quarter of 2003, the corporation entered into an arrangement with Wachovia that permits the corporation to lock in a fixed rate of interest for the RWG financing.

Letters of credit are generally considered borrowings for purposes of the Revolving Credit Agreement. A total of $29.8 million in letters of credit were outstanding at December 31, 2003, a significant portion of which is related to the Australia SH-2G(A) program. During the second quarter of 2003, the letter of credit for the production portion of the Australia program was reduced to a balance of $20 million, which is expected to remain in place until final acceptance of the aircraft by the RAN.

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, the industrial distribution and music 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; 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, particularly industrial production and commercial aviation, and global economic conditions; 5) satisfactory completion of the Australian SH-2G(A) program, including successful completion and integration of the full ITAS software; 6) recovery of the corporation's investment in the MD Helicopters, Inc. contracts; 7) achievement of and actual costs for recertifying products and processes in connection with start-up of the expanded Jacksonville 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 and general and administrative expenses; 10) successful sale or lease of existing K-MAX inventory; 11) the condition of consumer markets for musical instruments; 12) profitable integration of acquired businesses into the corporation's operations; 13) changes in supplier sales or vendor incentive policies; 14) the effect of price increases or decreases; and 15) currency exchange rates, taxes, changes in laws and regulations, inflation rates, general business conditions and other factors. Any forward-looking information should be considered with these factors in mind.

SELECTED QUARTERLY FINANCIAL DATA

KAMAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
NET SALES					
2003	$216,010	$216,311	$223,324	$238,854	$894,499
2002	223,093	209,141	218,266	230,276	880,776
GROSS PROFIT					
2003	$ 58,140	$ 58,150	$ 54,740	$ 53,319	$224,349
2002	60,410	(19,659)	57,305	59,477	157,533
NET EARNINGS (LOSS)					
2003	$ 13,966	$ 3,284	$ 1,188	$ 967	$ 19,405
2002	5,341	(50,366)	5,572	5,852	(33,601)
PER SHARE – BASIC					
2003	$ .62	$ .15	$ .05	$ .04	$ .86
2002	.24	(2.25)	.25	.26	(1.50)
PER SHARE – DILUTED					
2003	$ .60	$ .15	$ .05	$ .04	$ .86
2002	.24	(2.25)	.25	.26	(1.50)

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

The quarterly per share-diluted amounts for 2003 do not equal the "Total Year" figure due to the calculation being anti-dilutive in the third and fourth quarters.

CONSOLIDATED BALANCE SHEETS

KAMAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

December 31	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,130	$ 5,571
Accounts receivable	193,243	195,857
Inventories	178,952	164,715
Income taxes receivable	1,043	5,192
Deferred income taxes	26,026	28,450
Other current assets	12,457	14,460
Total current assets	418,851	414,245
PROPERTY, PLANT AND EQUIPMENT, NET	51,049	61,635
GOODWILL	38,638	35,973
OTHER INTANGIBLE ASSETS, NET	14,709	15,021
OTHER ASSETS	5,064	8,666
TOTAL ASSETS	$ 528,311	$ 535,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 6,013	$ 8,647
Current portion of long-term debt	1,660	1,660
Accounts payable – trade	59,600	46,664
Accrued salaries and wages	8,698	8,434
Accrued vacations	5,885	6,434
Accrued contract loss	23,611	26,674
Accrued restructuring cost	6,109	7,594
Advances on contracts	19,693	22,318
Other accruals and payables	29,286	28,669
Total current liabilities	160,555	157,094
LONG-TERM DEBT, EXCLUDING CURRENT PORTION	36,624	60,132
OTHER LONG-TERM LIABILITIES	27,949	26,367
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 2003 and 2002	23,066	23,066
Class B, authorized 1,500,000 shares, voting; issued 667,814 shares in 2003 and 2002	668	668
Additional paid-in capital	76,744	77,267
Retained earnings	219,401	209,932
Unamortized restricted stock awards	(1,727)	(2,094)
Accumulated other comprehensive income (loss)	(1,311)	(1,099)
	316,841	307,740
Less 1,103,636 shares and 1,274,091 shares of Class A common stock in 2003 and 2002, respectively, held in treasury, at cost	(13,658)	(15,793)
Total shareholders' equity	303,183	291,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 528,311	$ 535,540

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

KAMAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Year ended December 31	2003	2002	2001
NET SALES	$ 894,499	$ 880,776	$ 875,869
COSTS AND EXPENSES			
Cost of sales [1]	670,150	723,243	673,782
Selling, general and administrative expense	207,857	199,453	188,752
Restructuring costs [2]	—	8,290	—
Other operating income	(1,448)	(1,302)	(1,076)
Net gain on sale of product lines and other assets	(18,163)	(2,299)	(2,637)
Interest expense (income), net	3,008	2,486	623
Other expense, net	1,265	1,831	761
	862,669	931,702	860,205
EARNINGS (LOSS) BEFORE INCOME TAXES	31,830	(50,926)	15,664
INCOME TAXES (BENEFIT)	12,425	(17,325)	3,950
NET EARNINGS (LOSS)	$ 19,405	$ (33,601)	$ 11,714
PER SHARE			
Net earnings (loss) per share:			
Basic	$ .86	$ (1.50)	$ .52
Diluted [3]	.86	(1.50)	.52
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, both of 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) 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)

Year ended December 31	2003	2002	2001
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	77,267	77,389	77,298
Employee stock plans	(398)	(304)	(234)
Restricted stock awards	(125)	182	325
Balance – end of year	76,744	77,267	77,389
RETAINED EARNINGS			
Balance – beginning of year	209,932	253,403	251,526
Net earnings (loss) [1]	19,405	(33,601)	11,714
Dividends declared	(9,936)	(9,870)	(9,837)
Balance – end of year	219,401	209,932	253,403
UNAMORTIZED RESTRICTED STOCK AWARDS			
Balance – beginning of year	(2,094)	(2,206)	(1,643)
Stock awards issued	(529)	(832)	(1,585)
Amortization of stock awards	896	944	1,022
Balance – end of year	(1,727)	(2,094)	(2,206)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance – beginning of year	(1,099)	(919)	(749)
Foreign currency translation adjustment [1]	(212)	(180)	(170)
Balance – end of year	(1,311)	(1,099)	(919)
TREASURY STOCK			
Balance – beginning of year	(15,793)	(17,820)	(18,120)
Shares acquired in 2003 – 20,000; 2002 – 37,300; 2001 – 211,550	(205)	(412)	(2,760)
Shares reissued under various stock plans	2,340	2,439	3,060
Balance – end of year	(13,658)	(15,793)	(17,820)
TOTAL SHAREHOLDERS' EQUITY	$ 303,183	$ 291,947	$ 333,581

(1) Comprehensive income (loss) is $19,193, $(33,781), and $11,544 for 2003, 2002 and 2001, respectively.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KAMAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS)

Year ended December 31	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings (loss)	$ 19,405	$ (33,601)	$ 11,714
Adjustments to reconcile net earnings (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	10,019	11,620	11,441
Net gain on sale of product lines and other assets	(18,163)	(2,299)	(2,637)
Restructuring costs	—	8,290	—
Non-cash write-down of assets	—	52,679	—
Deferred income taxes	5,994	(16,715)	(375)
Other, net	2,376	3,403	2,152
Changes in current assets and liabilities, excluding effects of acquisitions/divestitures:			
Accounts receivable	3,231	(4,625)	32,411
Inventories	(9,806)	(12,751)	5,407
Income taxes receivable	4,149	(4,888)	(4,081)
Other current assets	2,267	(2,691)	(3,680)
Accounts payable – trade	10,106	(8,813)	(9,284)
Accrued contract loss	(3,063)	26,674	—
Accrued restructuring costs	(1,485)	(696)	—
Advances on contracts	(1,846)	(9,286)	(11,124)
Accrued expenses and payables	3,459	(17,470)	(11,813)
Cash provided by (used in) operating activities	26,643	(11,169)	20,131
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of product lines and other assets	28,339	8,034	4,047
Expenditures for property, plant and equipment	(9,069)	(7,601)	(8,033)
Acquisition of businesses, less cash acquired	(7,748)	(51,227)	(20,845)
Other, net	(1,599)	1,854	(253)
Cash provided by (used in) investing activities	9,923	(48,940)	(25,084)
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in notes payable	(2,664)	5,985	318
Changes in long-term debt	(23,508)	36,906	(1,660)
Proceeds from exercise of employee stock plans	1,287	1,485	1,566
Purchases of treasury stock	(205)	(412)	(2,760)
Dividends paid	(9,917)	(9,850)	(9,834)
Other	—	732	—
Cash provided by (used in) financing activities	(35,007)	34,846	(12,370)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,559	(25,263)	(17,323)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,571	30,834	48,157
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,130	$ 5,571	$ 30,834

See accompanying notes to consolidated financial statements.

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.

REVENUE RECOGNITION – Sales and estimated profits under long-term contracts are principally recognized on the percentage-of-completion method of accounting, generally using as a measurement basis 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. 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.

Sales and related cost of sales for products and programs not accounted for under the percentage-of-completion method are recognized when products are shipped to customers and title has passed.

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 period of benefit and reviewed for possible impairment whenever changes in conditions indicate carrying value may not be recoverable.

VENDOR INCENTIVES – The corporation's Industrial Distribution segment enters into agreements with certain vendors providing for inventory purchase incentives that are generally earned upon achieving specified volume-purchasing levels. The segment recognizes these incentives as a reduction in cost of goods sold.

RESEARCH AND DEVELOPMENT – Research and development costs not specifically covered by contracts are charged against income as incurred through selling, general and administrative expense. Such costs amounted to $4,318 in 2003, $5,363 in 2002 and $4,673 in 2001.

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.

STOCK-BASED COMPENSATION – As permitted by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), 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.

	2003	2002	2001
Net earnings (loss):			
As reported	$ 19,405	$(33,601)	$ 11,714
Less stock option expense	(1,258)	(1,388)	(1,266)
Tax effect	491	472	319
Pro forma net earnings (loss)	$ 18,638	$(34,517)	$10,767
Earnings (loss) per share – basic:			
As reported	.86	(1.50)	.52
Pro forma	.83	(1.54)	.48
Earnings (loss) per share – diluted:			
As reported	.86	(1.50)	.52
Pro forma	.83	(1.54)	.48

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 2003, 2002 and 2001:

	2003	2002	2001
Expected dividend yield	4.4%	3.0%	2.7%
Expected volatility	47%	45%	45%
Risk-free interest rate	3.9%	4.9%	5.1%
Expected option lives	8 years	8 years	8 years
Per share fair value of options granted	$3.33	$5.86	$6.84

RECENT ACCOUNTING STANDARDS – In June 2002, the Financial Accounting Standards Board ("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.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS 149"). SFAS 149 amends FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" to provide more consistent reporting of contracts as either derivatives or hybrid instruments. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003. 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.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The corporation has adopted SFAS 150 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.

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132R"). SFAS 132R revises employers' disclosures about pension plans and other postretirement benefit plans to include information describing the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. SFAS 132R is effective for financial statements for interim or annual periods ending after December 15, 2003. The corporation has provided the disclosures required in accordance with its terms as of December 31, 2003.

ACQUISITION OF BUSINESSES

During the fourth quarter of 2003, the corporation purchased a majority of the assets and business of Industrial Supplies, Inc. ("ISI"), located in Birmingham, Alabama. ISI is a distributor of a wide variety of bearing, conveyor, electrical, fluid power and power transmission components used by manufacturing, mining, steel, lumber, pulp and paper, food and other industries. ISI had net sales of approximately $28,600 in 2002. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Industrial Distribution 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. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Music 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's 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 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 U.S. Air Force and Navy Joint Programmable Fuze (JPF) program. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Aerospace segment.

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 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 the aggregate, the corporation paid $7,748 and $51,227 for acquisition of businesses in 2003 and 2002, respectively, and there is potential for contingency payments at Dayron of up to $25,000 over the next nine years if certain milestones are reached. Any such contingency payments would be treated as additional goodwill. An accrual of $1,000 was recorded as of December 31, 2003 associated with these additional payments for which milestones were met.

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.

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.

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, 2002, 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, 2003 and 2002 would have been as follows:

	PRO FORMA	
December 31 (unaudited)	2003	2002
Net sales	$914,470	$942,197
Earnings (loss) before income taxes	31,334	(50,351)
Net earnings (loss)	19,103	(33,178)
Net earnings (loss) per share:		
Basic	.85	(1.48)
Diluted	.85	(1.48)

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, 2002. 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 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. for $27,500. The sale resulted in a pre-tax gain of $17,415. The EDC contributed sales of approximately $14,000 in 2002.

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, being no longer core to the segment's advanced technology business. Microwave product sales were approximately $7,500 for the year 2001.

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. The charges represent severance costs of $3,290 at the Moosup and Bloomfield, Connecticut locations for approximately 400 employees (of which $2,181 has been paid for 289 such separations as of December 31, 2003) and costs of $5,000 for closing the facility (including costs of an ongoing voluntary environmental remediation program). During 2003, the corporation incurred an additional $3,550 of period costs for moving machinery to other company facilities and recertifying products and processes.

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 corporation 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. This loss accrual reflects the impact of higher overhead rates, which were attributable to lower production activity in the corporation's aerospace subsidiary.

ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

December 31	2003	2002
Trade receivables, net of allowance for doubtful accounts of $3,340 in 2003, $2,853 in 2002	$ 74,816	$ 72,471
U.S. Government contracts:		
Billed	9,355	11,607
Recoverable costs and accrued profit – not billed	10,014	21,225
Commercial and other government contracts:		
Billed	19,711	21,628
Recoverable costs and accrued profit – not billed	79,347	68,926
Total	$193,243	$195,857

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 $53,204 of such costs and accrued profits at December 31, 2003 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. ("MDHI").

The corporation's Aerospace segment provides fuselages for the MD Helicopters 500 and 600 series helicopters and composite rotor blades for the MD Explorer helicopter. Total orders received from MDHI have run at significantly lower rates than originally anticipated due to lower than expected demand. The corporation's investment in these contracts consists of $4.4 million in billed receivables and $16.4 million in recoverable costs not billed (including start-up costs and other program expenditures) as of December 31, 2003. The corporation received payments in 2003 totaling $4.4 million, primarily for items shipped during 2003. The recoverability of unbilled costs will depend to a significant extent upon MDHI's future requirements through 2013. The corporation has stopped production on these programs while working closely with the customer to resolve overall payment issues and establish conditions under which production could be resumed, including the timing thereof. Based on their projected future requirements and inventory on hand at MDHI and Kaman, this would not be expected to occur until the second half of 2004 at the earliest. Although the outcome is not certain, the company understands that MDHI management is pursuing strategies to improve its current financial and operational circumstances.

In applying the guidance of Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies" ("SFAS 5"), the corporation's management has concluded that some level of impairment to the MDHI investment, while not probable, is reasonably possible. In assessing the range of potential loss, current program estimates project the entire amount of the corporation's current investment to be recoverable over the full term of the contracts, which makes the minimum end of the potential loss range zero. Therefore, no impairment to the carrying value of the corporation's investment in the MDHI programs has been recorded to date.

INVENTORIES

Inventories are comprised as follows:

December 31	2003	2002
Merchandise for resale	$ 94,042	$ 95,056
Contracts in process:		
U.S. Government	21,127	13,348
Commercial	15,895	16,694
Other work in process (including certain general stock materials)	23,103	31,875
Finished goods	24,785	7,742
Total	$178,952	$164,715

Included above in other work in process and finished goods at December 31, 2003 and 2002 is K-MAX inventory of $33,437 and $25,181, respectively.

The aggregate amounts of general and administrative costs incurred in the Aerospace segment and allocated to contracts in process during 2003, 2002 and 2001 were $34,793, $51,845 and $49,816, respectively.

The estimated amounts of general and administrative costs remaining in contracts in process at December 31, 2003 and 2002 amount to $4,118 and $4,222, 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:

December 31	2003	2002
Land	$ 4,236	$ 6,524
Buildings	29,070	35,077
Leasehold improvements	13,486	11,397
Machinery, office furniture and equipment	107,239	108,920
Total	154,031	161,918
Less accumulated depreciation and amortization	102,982	100,283
Property, plant and equipment, net	$ 51,049	$ 61,635

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are as follows:

December 31	2003	2002
Goodwill:		
Aerospace	$ 31,690	$ 30,635
Industrial Distribution	4,277	3,197
Music	2,671	2,141
	$ 38,638	$ 35,973

December 31	2003	2002
Other intangible assets, net:		
Trade name – not subject to amortization	$ 13,819	$ 13,819
Patents, net – subject to amortization	890	1,202
	$ 14,709	$ 15,021

Intangible amortization expense was $107 in 2003 and 2002 compared to $99 in 2001.

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

REVOLVING CREDIT AGREEMENT – The corporation maintains a revolving credit agreement (the "Revolving Credit Agreement") with several banks that provides a $150,000 five-year commitment scheduled to expire in November 2005. Prior to November 2003, the corporation also maintained a $75,000 "364-day" annually renewable facility as part of the Revolving Credit Agreement. Both portions of the Revolving Credit Agreement provide for interest at current market rates. In view of the longer term attractiveness of fixed rates in the current environment and the fact that the "364-day" facility had never been used, the corporation permitted it to expire in November 2003.

In the third quarter of 2003, the Revolving Credit Agreement was amended to give potential lenders under a new fixed rate financing of up to $75,000 the same covenant and guarantee protections that the Revolving Credit Agreement lenders currently possess.

In the second quarter of 2002, the 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.

In general, outstanding letters of credit are considered indebtedness under the Revolving Credit 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 certain other credit arrangements with these banks to borrow funds on a short-term basis with interest at current market rates.

Short-term borrowings outstanding are as follows:

December 31	2003	2002
Revolving credit agreement	$ —	$ —
Other credit arrangements	6,013	8,647
Total	$ 6,013	$ 8,647

LONG-TERM DEBT – The corporation has long-term debt as follows:

December 31	2003	2002
Revolving credit agreement	$ 7,000	$ 30,840
Euro credit agreement	9,718	7,726
Convertible subordinated debentures	21,566	23,226
Total	38,284	61,792
Less current portion	1,660	1,660
Total excluding current portion	$ 36,624	$ 60,132

In the third quarter of 2002, the corporation entered into a €9,500 credit agreement (the "Euro Credit Agreement") with one of the Revolving Credit Agreement lenders having offices in London. In general, the Euro Credit Agreement contains the same financial covenants as the Revolving Credit Agreement described previously and the term of the Euro Credit Agreement expires at the same time as the Revolving Credit Agreement. During the third quarter of 2003, the Euro Credit Agreement was amended to conform with the previously described amendment to the Revolving Credit Agreement.

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 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%. The non-cash portion of the 2002 second quarter charges, up to $52,500, were excluded from the financial covenant calculations during the four quarters ended March 31, 2003.

CERTAIN LETTERS OF CREDIT – The face amounts of irrevocable letters of credit issued under the Revolving Credit Agreement totaled $29,769 and $50,975 at December 31, 2003 and 2002, respectively. Of those amounts, $23,000 and $43,000, respectively, are attributable to the Australia SH-2G(A) helicopter program.

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 $21,350 at December 31, 2003 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:

2004	$ 1,660
2005	18,378
2006	1,660
2007	1,660
2008	1,660
Thereafter	13,266

INTEREST PAYMENTS – Cash payments for interest were $3,174, $2,668 and $2,235 for 2003, 2002 and 2001, 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(A) 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 remain in place until final acceptance of the aircraft by the Royal Australian Navy, which is expected in 2005.

INCOME TAXES

The components of income taxes are as follows:

	2003	2002	2001
Current:			
Federal	$ 5,205	$ (1,447)	$ 3,411
State	429	698	748
Foreign	797	273	166
	6,431	(476)	4,325
Deferred:			
Federal	5,772	(17,111)	(353)
State	222	262	(22)
Foreign	—	—	—
	5,994	(16,849)	(375)
Total	$ 12,425	$(17,325)	$ 3,950

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

December 31	2003	2002
Deferred tax assets:		
Long-term contracts	$ 9,284	$10,066
Deferred employee benefits	15,559	14,195
Inventory	6,970	9,311
Restructuring costs	2,065	2,679
Accrued liabilities and other items	5,283	7,806
Total deferred tax assets	39,161	44,057
Deferred tax liabilities:		
Depreciation and amortization	(7,124)	(6,820)
Intangibles	(1,509)	(347)
Other items	(898)	(1,533)
Total deferred tax liabilities	(9,531)	(8,700)
Net deferred tax asset before valuation allowance	29,630	35,357
Valuation allowance	(1,124)	(857)
Net deferred tax asset after valuation allowance	$ 28,506	$34,500

Valuation allowances of $1,124 and $857 at December 31, 2003 and 2002 reduced the deferred tax asset attributable to foreign loss carryforwards to an amount that, based upon all available information, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income in the foreign country or changes in circumstances which cause the recognition of the benefits of the loss carryforwards to become more likely than not. The increase in the valuation allowance of $267 is due to the generation of additional foreign losses in 2003.

No valuation allowance has been recorded against other deferred tax assets 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.

Income taxes have not been provided on undistributed earnings of $3,647 from foreign subsidiaries since it is the corporation's intention to permanently reinvest such earnings or to distribute them only when it is tax efficient to do so. It is impracticable to estimate the total tax liability, if any, which would be caused by the future distribution of these earnings.

The provisions for 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 $329, $1,156 and $2,972 in 2003, 2002 and 2001, 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 $2,062, $3,562 and $8,589 in 2003, 2002 and 2001, 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 acquired companies that 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 $9,707 of Class A common stock of Kaman Corporation at December 31, 2003). The corporation uses a December 31 measurement date for its pension plan.

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

	2003	2002	2001
Service cost for benefits earned during the year	$ 10,000	$ 10,061	$ 9,757
Interest cost on projected benefit obligation	24,348	24,045	22,822
Expected return on plan assets	(31,445)	(32,761)	(31,614)
Net amortization and deferral	6	(1,382)	(3,589)
Net pension cost (income)	$ 2,909	$ (37)	$ (2,624)

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

December 31	2003	2002
Projected benefit obligation at beginning of year	$ 361,213	$329,168
Service cost	10,000	10,061
Interest cost	24,348	24,045
Actuarial liability loss	12,902	15,848
Plan amendments	—	—
Benefit payments	(18,571)	(17,909)
Projected benefit obligation at end of year	$ 389,892	$361,213

The actuarial liability losses for 2003 and 2002 are principally due to effect of the changes in the discount rate.

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

December 31	2003	2002
Fair value of plan assets at beginning of year	$337,813	$386,642
Actual return on plan assets	66,200	(30,920)
Employer contribution	1,406	—
Benefit payments	(18,571)	(17,909)
Fair value of plan assets at end of year	$386,848	$337,813

December 31	2003	2002
Excess (deficiency) of assets over projected benefit obligation	$ (3,044)	$(23,400)
Unrecognized prior service cost	570	576
Unrecognized net (gain) loss	3,572	25,425
Accrued (prepaid) pension cost	$ (1,098)	$ (2,601)

The accumulated benefit obligation for the pension plan was $350,635 and $316,356 at December 31, 2003 and 2002, respectively.

The actuarial assumptions used in determining both benefit obligations of the pension plan are as follows:

December 31	2003	2002
Discount rate	6.5%	7.0%
Average rate of increase in compensation levels	3.5%	4.0%

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

December 31	2003	2002
Discount rate	7.0%	7.5%
Expected return on plan assets	8.5%	8.6%
Average rate of increase in compensation levels	4.0%	4.5%

The expected return on plan assets rate was determined based upon historical returns adjusted for estimated future market fluctuations.

The weighted-average asset allocations by asset category are as follows:

December 31	2003	2002
Equity securities	58%	48%
Fixed income securities	42%	52%
Total	100%	100%

The investment policies and goals for pension plan assets are A) to place assets with investment managers approved by the Finance Committee of the Board of Directors B) to diversify across traditional equity and fixed income asset classes to minimize the risk of large losses and C) to seek the highest total return (through a combination of income and asset appreciation) consistent with prudent investment practice, and on a five-year moving basis, not less than the actuarial earnings assumption.

The target equity/fixed asset allocation ratio is 60%/40% over the long term. If the ratio for any asset class moves outside permitted ranges, the pension plan's Administrative Committee (the management committee that is responsible for plan administration) will act through an immediate or gradual process, as appropriate, to reallocate assets.

Under the current investment policy no investment is made in commodities, nor are short sales, margin buying hedges, covered or uncovered call options, puts, straddles or other speculative trading devices permitted. No manager may invest in international securities, inflation linked treasuries, real estate, private equities, or securities of Kaman Corporation without authorization from the corporation. In addition, with the

exception of U.S. Government securities, managers' holdings in the securities of any issuer, at the time of purchase, may not exceed 7½% of the total market value of that manager's account.

Investment manager performance is evaluated over various time periods in relation to peers and the following indexes: Domestic Equity Investments, S&P 500; International Equity Investments, Morgan Stanley EAFE; Fixed Income Investments, Lehman Brothers' Aggregate.

The corporation does not expect to make a contribution to the pension plan in 2004.

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 $2,900, $3,019 and $3,438 in 2003, 2002 and 2001, 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	2003	2002
Supplemental employees' retirement plan	$ 15,199	$ 13,680
Deferred compensation	8,395	8,288
Other	4,355	4,399
Total	$ 27,949	$ 26,367

COMMITMENTS AND CONTINGENCIES

Rent commitments under various leases for office space, warehouses, land and buildings expire at varying dates from January 2004 to December 2013. 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, 2003:

2004	$ 12,978
2005	6,477
2006	3,793
2007	2,420
2008	958
Thereafter	2,538
Total	$ 29,164

Lease expense for all operating leases, including leases with terms of less than one year, amounted to $15,878, $15,172 and $15,113 for 2003, 2002 and 2001, 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.

	2003	2002	2001
Earnings (loss) per share – basic			
Net earnings (loss)	$ 19,405	$(33,601)	$ 11,714
Weighted average shares outstanding (000)	22,561	22,408	22,364
Earnings (loss) per share – basic	$ .86	$ (1.50)	$ .52
Earnings (loss) per share – diluted			
Net earnings (loss)	$ 19,405	$(33,601)	$ 11,714
Plus:			
After-tax interest savings on convertible debentures	806	918	1,093
Net earnings (loss) assuming conversion	$ 20,211	$(32,683)	$ 12,807
Weighted average shares outstanding (000)	22,561	22,408	22,364
Plus shares issuable on:			
Conversion of 6% convertible debentures	938	—	1,080
Exercise of dilutive options	43	—	205
Weighted average shares outstanding assuming conversion (000)	23,542	22,408	23,649
Earnings (loss) per share – diluted[1]	$ .86	$ (1.50)	$ .52

(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 2003, 129,787 shares were issued to employees at prices ranging from $8.02 to $11.90 per share. 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. At December 31, 2003, there were approximately 735,500 shares available for offering under the plan.

STOCK INCENTIVE PLAN – Effective November 1, 2003, the corporation's Board of Directors adopted the 2003 Stock Incentive Plan (the "2003 Plan"). The 2003 Plan is subject to approval by the shareholders entitled to vote thereon at the 2004 annual meeting of shareholders. In general, the 2003 Plan provides for the issuance of 2,000,000 shares of Class A common stock and includes a continuation and extension of the stock incentive program embodied in the 1993 Stock Incentive Plan (the "1993 Plan"), which expired on October 31, 2003. As with the 1993 Plan, the 2003 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. The 2003 Plan adds a long-term incentive award feature under which senior executives specifically designated for participation are given the opportunity to receive award payments in a combination of cash and stock at the end of a three-year performance cycle. For the performance cycle, the corporation's financial results are compared to the Russell 2000 indices using the following specific measures: average return on total capital, earnings per share growth and total return to shareholders. Award payments under this long-term incentive feature are not

made unless the corporation's performance is at least in the 50th percentile of the designated indices. In addition, the 2003 Plan contains provisions intended to qualify the plan under §162(m) of the Internal Revenue Code of 1986, as amended. At December 31, 2003, there were 2,000,000 shares available for the granting of stock options, subject to approval by the shareholders entitled to vote thereon at the 2004 annual meeting of shareholders.

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 53,500 shares at prices ranging from $9.90 to $9.91 per share in 2003, 56,000 shares at prices ranging from $14.50 to $17.74 per share in 2002 and 100,000 shares at prices ranging from $15.63 to $16.31 per share in 2001. At December 31, 2003, there were 176,200 shares remaining subject to restrictions pursuant to these awards.

Stock appreciation rights were issued for 314,300 shares at $9.90 per share in 2003, 136,000 shares at $14.50 per share in 2002 and 205,000 shares at prices ranging from $16.28 to $16.31 per share in 2001, to be settled only for cash. The corporation recorded expense for stock appreciation rights of $585 in 2003, income of $440 in 2002 and expense of $575 in 2001 due to fluctuations in the market price of the shares.

Stock option activity is as follows:

Stock options outstanding:	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at January 1, 2001	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
Options granted	171,500	9.90
Options exercised	(31,310)	9.65
Options cancelled	(83,320)	13.47
Balance at December 31, 2003	1,275,670	13.67
Weighted average contractual life remaining at December 31, 2003		6.3 years

Range of exercise prices for options outstanding at December 31, 2003	$ 9.50-$13.25	$13.26-$17.00
Options outstanding	470,340	805,330
Options exercisable	245,480	434,690
Weighted average contractual remaining life of options outstanding	5.9 years	6.5 years
Weighted average exercise price:		
Options outstanding	$ 10.68	$ 15.41
Options exercisable	$ 11.29	$ 15.51

As of December 31, 2002 and 2001, there were 553,870 and 577,450 options exercisable, respectively.

SEGMENT INFORMATION

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

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 profit 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 the nation's third largest distributor 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 segment is the largest independent distributor of musical instruments and accessories, offering more than 15,000 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.

Summarized financial information by business segment is as follows:

	2003	2002	2001
Net sales:			
Aerospace	$251,161	$275,942	$301,580
Industrial Distribution	497,895	477,156	453,718
Music	145,443	127,678	120,571
	$894,499	$880,776	$875,869
Operating profit (loss):			
Aerospace	$ 14,848	$ (55,208)	$ 6,542
Industrial Distribution	12,672	12,344	13,217
Music	9,510	7,157	6,580
	37,030	(35,707)	26,339
Interest, corporate and other expense, net	(5,200)	(15,219)	(10,675)
Earnings (loss) before income taxes	$ 31,830	$ (50,926)	$ 15,664
Identifiable assets:			
Aerospace	$294,345	$308,275	$302,076
Industrial Distribution	150,115	144,585	134,974
Music	65,704	68,448	45,783
Corporate	18,147	14,232	39,113
	$528,311	$535,540	$521,946

	2003	2002	2001
Capital expenditures:			
Aerospace	$ 7,321	$ 5,255	$ 5,107
Industrial Distribution	1,079	1,494	1,501
Music	522	515	1,018
Corporate	147	337	407
	$ 9,069	$ 7,601	$ 8,033
Depreciation and amortization:			
Aerospace	$ 6,138	$ 6,773	$ 6,175
Industrial Distribution	1,989	2,457	2,742
Music	1,143	1,278	1,430
Corporate	749	1,112	1,094
	$ 10,019	$ 11,620	$ 11,441

	2003	2002	2001
Geographic information – sales:			
United States	$760,444	$758,240	$726,756
Australia/New Zealand	52,453	64,071	100,121
Canada	31,469	28,049	27,162
Europe	27,400	14,933	12,319
Mexico	13,652	8,046	1,484
Japan	4,774	4,492	6,154
Other	4,307	2,945	1,873
	$894,499	$880,776	$875,869

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 $17,415 related to the sale of the EDC operation in 2003, $1,928 related to the sale of the microwave 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 are principally due to the use of cash and cash equivalents in that 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 $91,618 in 2003, $102,241 in 2002 and $81,106 in 2001.

Sales made by the Aerospace segment under a contract with one customer were $46,322, $52,029 and $76,865 in 2003, 2002 and 2001, respectively.

KPMG LLP
Certified Public Accountants
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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, 2003 and 2002, 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, 2003. 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, 2003 and 2002 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 6, 2004

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C. William Kaman II

Wanda L. Rogers

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 is scheduled to be held on Tuesday, April 20, 2004, 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

2003	HIGH	LOW	CLOSE	DIVIDEND
First	$13.24	$ 9.40	$ 9.78	11¢
Second	11.80	9.42	11.49	11¢
Third	14.91	10.72	12.96	11¢
Fourth	14.29	11.67	12.73	11¢

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¢

INVESTOR INFORMATION DIRECTORY

INVESTOR, MEDIA AND PUBLIC RELATIONS CONTACT
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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.

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KAMAN

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