KAMAN CORP
Form 10-K
February 26, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission File No. 0-1093

KAMAN CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock ($1 par value)	The NASDAQ Stock Market, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated herein by reference in Part III of this Form 10-K or any amendment to this Form 10-K o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value on June 27, 2008 (the last business day of the Company’s most recently completed second quarter) of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the stock, was approximately $570,226,767.

At January 30, 2009, there were 25,479,150 shares of Common Stock outstanding.

Documents Incorporated Herein By Reference

Portions of our definitive proxy statement for our 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Kaman Corporation
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PART I

ITEM 1. BUSINESS

GENERAL

Kaman Corporation, headquartered in Bloomfield, Connecticut, was incorporated in 1945. We are a diversified company that conducts business in the aerospace and industrial distribution markets. We report information for ourselves and our subsidiaries (collectively, the "Company") in five business segments. They are Industrial Distribution and four reporting segments within the aerospace industry: Aerostructures, Precision Products, Helicopters, and Specialty Bearings (collectively, the “Aerospace Segments”).

A discussion of 2008 developments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K.

Aerostructures Segment

The Aerostructures segment has been a supplier of commercial and military aircraft structures and subsystems for over 50 years. Our product portfolio currently consists of metallic and composite detail parts, minor and major subassemblies, flight control surfaces, composite interiors and fuselage and wing structures. We offer a range of services from build-to-print manufacturing, to major structural assembly, to full production integration, including procurement and installation of wiring and sub-systems. We currently perform work on many major commercial and military platforms including the Boeing 767, 777 and 787, the Boeing C-17 and the Sikorsky UH-60. Other customers include Airbus, Bell Helicopter and BAE Systems. Operations are conducted at Kaman Aerospace Corporation’s (“KAC”) Aerostructures Division in Jacksonville, FL, at Plastic Fabricating Company, Inc. in Wichita, KS (“Aerostructures Wichita”) and at Brookhouse Holdings Ltd. in Darwen, Lancashire, United Kingdom and Hyde, Greater Manchester, United Kingdom (“Brookhouse”).

We have made, and continue to make, strategic investments in composite technology and machining capabilities. This combined with the expansion of our supply chain and program management organizations as well as a commitment to achieving operational excellence allows us to offer our customers an integrated solution for their aerostructures needs.

Precision Products Segment (formerly the Fuzing Segment)

The Precision Products segment manufactures products for military and commercial markets, primarily related to military safe, arm and fuzing devices for several missile and bomb programs; as well as precision non-contact measuring systems for industrial and scientific use; and high reliability memory systems for airborne, shipboard, and ground-based programs. One of our key programs is the Joint Programmable Fuze (FMU-152 A/B) used in the MK80 series bombs, BLU-109, and in conjunction with JDAM and Paveway weapon kits.

Our capabilities include the design, development, test and manufacture of fuzing products. Our year round test facility is equipped with projectile velocity measurement equipment, projectile impact media, high-speed photographic equipment and lighting for night firing and tests. Principal customers include the U.S. military, Boeing, Lockheed Martin and Raytheon. Operations are conducted at KAC’s Precision Products Division in Middletown, CT and Tucson, AZ and at Kaman Precision Products, Inc. in Orlando, FL (“KPP Orlando”).

Helicopters Segment

The Helicopters segment, with our manufacturing capabilities and highly experienced people, markets our helicopter engineering expertise and performs subcontract work for other prime aerospace manufacturers. This includes the designing, testing, certifying, and delivery of major assemblies, complex components, subassemblies, and detail parts. We also refurbish, provide upgrades for and otherwise support Kaman SH-2G maritime helicopters operating with foreign militaries. Our K-MAX® "aerial truck" helicopter is used to perform repetitive external lifting and is operated by commercial customers in several countries for logging, fire fighting and various construction projects. The SH-2G aircraft is currently in service with the Egyptian Air Force and the New Zealand and Polish Navies. Operations are primarily conducted at KAC's Helicopters Division in Bloomfield, Connecticut.

Specialty Bearings Segment

The Specialty Bearings segment manufactures high-performance mechanical products used primarily in aviation. These products are used as original equipment and/or specified as replacement parts by the manufacturers of nearly every military and commercial aircraft manufactured in North and South America and Europe. Our engineering services are available for unique high performance applications requiring innovation and advanced technology. We operate highly automated manufacturing facilities that allow us to produce our products reliably and efficiently. These products are primarily proprietary self-lubricating ball and roller bearings for aircraft flight controls, turbine engines, and landing gear; driveline couplings for helicopters; self-lubricated bearings for hydropower installations, ships and submarines; and composite “flyer bows” used in the wire industry. The range of Specialty Bearings’ products includes:

- KAron® Bearings - self-lubricating bearings for aircraft and marine use;
- FraSlip® Bearings - self-lubricating bearings for aircraft and industrial use;
- KAron® Hydropower Bearings - ideally suited for demanding hydropower applications;
- KAflex® Couplings - driveshafts and couplings used in helicopters;
- Deep groove and self lubricating spherical ball and roller bearings for aircraft and industrial use; and
- Composite Flyer Bows - high-strength processing devices for the wire making industry including the Back Bone® Bow.

Operations for the Specialty Bearings segment are conducted at Kamatics Corporation in Bloomfield, Connecticut and RWG Frankenjura-Industrie Flugwerklager GmbH in Dachsbach, Germany.

Industrial Distribution Segment

Kaman Industrial Technologies Corporation (“KIT”) brings our commitment to technological leadership and value-added services to the Industrial Distribution business. The Industrial Distribution segment is the third largest power transmission/motion control industrial distributor in North America. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control and materials handling components to a broad spectrum of industrial markets throughout North America. Locations consist of nearly 200 branches, distribution centers and call centers across the United States (including Puerto Rico) and in Canada and Mexico. We offer approximately three million items, as well as value-added services, to a base of approximately 50,000 customers representing a highly diversified cross section of North American industry. Subsidiaries of KIT include Kaman Industrial Technologies, Ltd., Delamac de Mexico, S.A. de C.V., Industrial Supply Corporation & Industrial Rubber and Mechanics, Inc.

Divestiture of the Music Segment

On December 31, 2007, we completed the sale of all of the capital stock of our wholly owned subsidiary, Kaman Music Corporation, to Fender Musical Instruments Corporation (“FMIC” or “Fender”). Pursuant to the terms of the stock purchase agreement, as amended, we received $119.5 million in cash.

FINANCIAL INFORMATION ABOUT OUR SEGMENTS

Financial information about our segments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Note 21, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

PRINCIPAL PRODUCTS AND SERVICES

The following is information for the three preceding years concerning the percentage contribution of each business segment's products and services to consolidated net sales from continuing operations:

	Years Ended December 31,		
	2008	2007	2006
Aerostructures	11.8%	9.4%	7.9%
Precision Products	9.4%	8.1%	7.2%
Helicopters	5.5%	6.6%	7.1%
Specialty Bearings	11.3%	11.4%	10.7%
Subtotal Aerospace	38.0%	35.5%	32.9%
Industrial Distribution	62.0%	64.5%	67.1%
Total	100.0%	100.0%	100.0%

AVAILABILITY OF RAW MATERIALS

While we believe we have sufficient sources for the materials, components, services and supplies used in our manufacturing, we are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our aerospace products are aluminum (sheet, plate, forgings and extrusions), titanium, nickel, copper and composites. Many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of domestic and non-U.S. companies. Although alternative sources generally exist for these raw materials, qualification of the sources could take a year or more. We are dependent upon the ability of a large number of suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at anticipated costs. While we maintain an extensive qualification system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could adversely affect production schedules and contract profitability, while jeopardizing our ability to fulfill commitments to our customers. Although high prices for some raw materials important to some of our businesses (steel, copper, aluminum, titanium and nickel) may cause margin and cost pressures, we do not foresee any near term unavailability of materials, components or supplies that would have an adverse effect on our business, or on any of our business segments. For further discussion of the possible effects of changes in the cost or availability of raw materials on our business, see Item 1A, Risk Factors, in this Form 10-K.

PATENTS AND TRADEMARKS

We hold patents and trademarks reflecting functional, design and technical accomplishments in a wide range of areas covering both basic production of certain aerospace products as well as highly specialized devices and advanced technology products in defense related and commercial fields.

Although the company's patents and trademarks enhance our competitive position, we believe that none of such patents or trademarks is singularly or as a group essential to our business as a whole. We hold or have applied for U.S. and foreign patents with expiration dates that range through the year 2025.

Registered trademarks of Kaman Corporation include KAflex, KAron, and K-MAX. In all, we maintain 26 U.S. and foreign trademarks.

BACKLOG

Our entire backlog is attributable to the Aerospace Segments. We anticipate that approximately 63.4% of our backlog at the end of 2008 will be performed in 2009. Approximately 68.3% of the backlog at the end of 2008 is related to U.S. Government contracts or subcontracts, which include government orders that are firm but not yet funded and contracts that are awarded but not yet signed. Virtually all of these government contracts or subcontracts have been signed.

Total backlog, the portion of the backlog we expect to complete in 2009, and the portion of the backlog represented by U.S. Government contracts for each of the Aerospace Segments, are as follows:

	Total Backlog at December 31, 2008				
	Amount, in thousands	% U.S. Government	2008 Backlog to be completed in 2009	Total Backlog at December 31, 2007 (in thousands)	Total Backlog at December 31, 2006

Aerostructures	$	260,771	77.3%	$	138,713	$	130,598	$	84,178
Precision Products		151,552	92.8%		95,734		140,872		169,742
Helicopters		45,416	50.1%		36,242		106,269		116,028
Specialty Bearings		92,997	12.4%		78,432		96,790		80,646
Total	$	550,736	68.3%	$	349,121	$	474,529	$	450,594

GOVERNMENT CONTRACTS

During 2008, approximately 94.0% of the work performed by the company directly or indirectly for the U.S. government was performed on a fixed-price basis and the balance was performed on a cost-reimbursement basis. Under a fixed-price contract, the price paid to the contractor is negotiated at the outset of the contract and is not generally subject to adjustment to reflect the actual costs incurred by the contractor in the performance of the contract. Cost reimbursement contracts provide for the reimbursement of allowable costs and an additional negotiated fee.

The company's U.S. government contracts and subcontracts contain the usual required provisions permitting termination at any time for the convenience of the government with payment for work completed and associated profit at the time of termination.

COMPETITION

The Aerospace Segments operate in a competitive environment with many other domestic and foreign organizations and are affected by the political and economic circumstances of their potential foreign customers.

The Aerostructures segment competes for aircraft structures and components business on the basis of price, product quality, and performance.

The Precision Products segment competes for its business primarily on the basis of technical competence, product quality, price, its experience as a developer and manufacturer of such products for particular applications and the availability of facilities, equipment and personnel.

The Helicopters segment competes on the basis of price, performance, its experience as a manufacturer of helicopters, the quality of its products and services, and the availability of facilities and equipment to perform subcontract services.

The Specialty Bearings segment competes for its specialty aircraft bearing business based on quality and proprietary knowledge, product endurance, delivery lead-time, and special performance characteristics.

The Industrial Distribution segment competes for business with several other national distributors, two of which are substantially larger, and with many regional and local organizations. Competitive forces have intensified due to the increasing importance of large national accounts and the increasing consolidation in supplier relationships. We compete for business on the basis of price, performance and value added services that we are able to provide as one of the largest national distributors in North America.

RESEARCH AND DEVELOPMENT EXPENDITURES

Government sponsored research expenditures (which are included in cost of sales) were $6.3 million in 2008, $2.6 million in 2007, and $4.4 million in 2006. Independent research and development expenditures (which are included in selling, general and administrative expenses) were $4.2 million in 2008, $3.3 million in 2007, and $3.3 million in 2006.

COMPLIANCE WITH ENVIRONMENTAL PROTECTION LAWS

We are subject to the usual reviews, inspections and enforcement actions by various federal and state environmental and enforcement agencies and have entered into agreements and consent decrees at various times in connection with such reviews. In addition, we engage in various environmental studies and investigations and, where legally required to do so, undertake appropriate remedial actions at facilities we own or control, either voluntarily or in connection with the acquisition, disposal or operation of such facilities.

Such studies and investigations are ongoing at the company's Bloomfield and Moosup, Connecticut facilities. Voluntary remediation activities have been undertaken at the Moosup facility. In connection with the company's 2008 purchase of the Bloomfield facility formerly owned by the federal government, we continue the process of identifying various remediation activities that we will undertake in connection with that purchase, which relate principally to items that are required under the Connecticut Transfer Act (the Act) as a result of the transfer of ownership of the property. This item is discussed in more detail in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations – Helicopters Segment, and in Item 2, Properties, in this Form 10-K.

Also, in preparation for disposition of the Moosup facility, we have sought and obtained the conditional approval of the State of Connecticut Department of Environmental Protection (“CTDEP”) to a reclassification of the groundwater in the vicinity to be consistent with the industrial character of the area. The company has substantially completed work related to such ground water reclassification (including connection of certain neighboring properties to public drinking water) in coordination with CTDEP and local authorities.

In connection with the sale of the Music segment in 2007, the company assumed responsibility for meeting certain requirements of the Act that applied to our transfer of the New Hartford, Connecticut, facility formerly leased by that segment for guitar manufacturing purposes ("Ovation"). Under the Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment process began in 2008 and will continue during 2009. The company's estimate of our portion of the cost to assess the environmental conditions and remediate this site is $2.2 million, unchanged from previously reported estimates.

Additionally, we have accrued $2.4 million for environmental compliance at our recently acquired Brookhouse facilities. We are in the early stages of assessing the work that may be required, which may result in a change to this accrual.

With respect to all other matters that may currently be pending, in the opinion of management, based on our analysis of relevant facts and circumstances, compliance with relevant environmental protection laws is not likely to have a material adverse effect upon our capital expenditures, earnings or competitive position. In arriving at this conclusion, we have taken into consideration site-specific information available regarding total costs of any work to be performed, and the extent of work previously performed. Where we have been identified as a “potentially responsible party” (PRP) by environmental authorities at a particular site, we, using information available to us, have also reviewed and considered a number of other factors, including: (i) the financial resources of other PRPs involved in each site, and their proportionate share of the total volume of waste at the site; (ii) the existence of insurance, if any, and the financial viability of the insurers; and (iii) the success others have had in receiving reimbursement for similar costs under similar insurance policies issued during the periods applicable to each site. No such matters were outstanding at the end of 2008.

EMPLOYEES

As of December 31, 2008, the company employed 4,294 individuals throughout its business segments and corporate headquarters.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about geographic areas is included in Note 21, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

AVAILABLE INFORMATION

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

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

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC’s website at http://www.sec.gov.

We make available, free of charge on our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, proxy statements, and current reports on Form 8-K as well as amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, together with Section 16 insider beneficial stock ownership reports, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our website at www.kaman.com — select the “Investors & Media” link and then the “SEC Documents” link.

We also make available, free of charge on our website, the Certificate of Incorporation, By–Laws, Governance Principles and all Board of Directors' standing Committee Charters (including Audit, Corporate Governance, Personnel & Compensation and Finance). These documents are posted on our website at www.kaman.com — select the “Corporate Governance” link.

The information contained in our website is not intended to be incorporated into this Form 10-K.

Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or anticipated future results.

Current economic conditions may have an impact on our future operating results.

With the current economic downturn, the Company’s operating results and liquidity may be impacted in several ways, including:

- the inability to obtain further bank financing, which may limit our ability to fully execute our strategy in the short term;
- higher interest rates on future borrowings, which would limit our free cash flow;
- a reduction of the value of our pension plan investments and the associated impact on required contributions and plan expense;
- changes in the relationships between the U.S. Dollar and the Euro, the British Pound, the Australian Dollar, the Mexican Peso and the Canadian Dollar, which could positively or negatively impact our financial results;
- less activity relative to capital projects and planned expansions;
- increased bad debt reserves or slower payments from customers;
- decreased order activity from our customers particularly in the Industrial Distribution and Specialty Bearings segments, which would result in lower operating profits as well as less absorption of fixed costs due to the decreased business base; and
- the ability of our suppliers to meet our demand requirements, maintain the pricing of their products, or continue operations, which may require us to find and qualify new suppliers.

To mitigate these risks, we continually evaluate opportunities for future financing, monitor current borrowing rates, review our receivables to maximize collectability and monitor the stability of our supply chain. We recently executed a term loan credit agreement, as more fully described in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

The combined Aerospace Segments’ results are directly tied to economic conditions in the commercial aviation and defense industries. As a result, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled, which could put a portion of our backlog at risk. Additionally, a significant amount of work that we perform under contract tends to be for a few large customers.

The commercial aviation industry tends to be cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a variety of factors including current and future traffic levels, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels.

The defense industry is also affected by a changing global political environment, continued pressure on U.S. and global defense spending, U.S. foreign policy and the level of activity in military flight operations. Changes to the defense industry could have a material impact on several of our current aerospace programs, which would adversely affect our operating results. To mitigate these risks, we have worked to expand our customer and product base to include both commercial and military markets.

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

Our U.S. Government programs are subject to unique risks.

The company has several significant long-term contracts either directly with the U.S. government or where it is the ultimate customer, including the Sikorsky BLACK HAWK cockpit program, the JPF program, and the Boeing C-17 and A-10 programs. These contracts are subject to unique risks, some of which are beyond our control. Examples of such risks include:

- The U.S. Government may modify, curtail or terminate its contracts and subcontracts at its convenience without prior notice, upon payment for work done and commitments made at the time of termination. Modification, curtailment or termination of our major programs or contracts could have a material adverse effect on our future results of operations and financial condition.

- Our U.S. Government business is subject to specific procurement regulations and other requirements. These requirements, although customary in U.S. Government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Although we have procedures to comply with these regulations and requirements, failure to do so could lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time and could have a negative effect on our reputation and ability to receive other U.S. Government contract awards in the future.

- The costs we incur on our U.S. Government contracts, including allocated indirect costs, may be audited by U.S. Government representatives. Any costs found to be improperly allocated to a specific contract would not be reimbursed, and such costs already reimbursed would have to be refunded. We normally negotiate with the U.S. Government representatives before settling on final adjustments to our contract costs. We have recorded contract revenues based upon results we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments and we may be required to reduce our revenues or profits upon completion and final negotiation of these audits. Although we have instituted controls intended to assure our compliance, if any audit reveals the existence of improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government.

- We are from time to time subject to certain routine U.S. Government inquiries and investigations of our business practices due to our participation in government contracts. Any adverse finding associated with such an inquiry or investigation could have a material adverse effect on our results of operations and financial condition. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Precision Products Segment, Warranty and Contract-Related Matters, for discussion of U.S. Government inquiries and investigations.

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

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

Our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas and we may not have the technology, cost structure, or available resources to effectively compete with them. We believe that developing and maintaining a competitive advantage will require continued investment in product development, engineering, supply chain management and sales and marketing, and we may not have enough resources to make the necessary investments to do so.

Further, our significant customers have in the past used, and may attempt in the future, to use their position to negotiate a reduction in price of a particular product regardless of the terms of an existing contract.

For these reasons, we may not be able to compete successfully in this market or against such competitors; however, our strategies for our aerospace segments should allow us to continue to effectively compete for key contracts and customers.

We could be negatively impacted by the loss of key suppliers, lack of product availability, or changes in supplier programs that could adversely affect our operating results.

Our business depends on maintaining sufficient supply of various products to meet our customers' demands. We have several long-standing relationships with key suppliers but these relationships are non-exclusive and could be terminated by either party. If we lost a key supplier, or were unable to obtain the same levels of deliveries from these suppliers and were unable to supplement those purchases with products obtained from other suppliers, it could have a material adverse effect on our business. Supply interruptions could arise from shortages of raw materials, labor disputes or weather conditions affecting suppliers' production, transportation disruptions, or other reasons beyond our control. Even if we continue with our current supplier relationships, high demand for certain products may result in us being unable to meet our customers' demands, which could put us at a competitive disadvantage. Additionally our key suppliers could also increase pricing of their products, which would negatively affect our operating results if we were not able to pass these price increases through to our customers. We engage in strategic inventory purchases during the year, negotiate long-term vendor supply agreements and monitor our inventory levels to ensure that we have the appropriate inventory on hand to meet our customers' requirements.

The price volatility and availability of raw materials could increase our operating costs and adversely impact our profits.

We rely on foreign and domestic suppliers and commodity markets to secure raw materials used in many of the products we manufacture within the combined Aerospace Segments or sell within our Industrial Distribution segment. This exposes us to volatility in the price and availability of raw materials. In some instances, we depend upon a single source of supply. A disruption in deliveries from our suppliers, price increases, or decreased availability of raw materials or commodities could adversely affect our ability to meet our commitments to customers. This could also have an impact on our operating costs as well as our operating income. We base our supply management process on an appropriate balancing of the foreseeable risks and the costs of alternative practices. We also try to pass on increases in our costs but our ability to do so depends on contract terms and market conditions. Raising our prices could result in decreased sales volume, which could significantly reduce our profitability. All of these factors may have an adverse effect on our results of operations or financial condition. To mitigate these risks, we negotiate long-term agreements for materials, when possible.

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

For long-term contracts, we generally recognize sales and gross margin based on the percentage-of-completion method of accounting. This method allows for revenue recognition as our work progresses on a contract.

The percentage-of-completion method requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and, in some cases, projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers, and financial professionals. Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and the availability of materials and labor resources could affect the company's ability to estimate future contract costs. Additional factors that could affect recognition of revenue under the percentage-of-completion method include:

- Accounting for start-up costs;
- The effect of nonrecurring work;

- Delayed contract start-up;
- Transition of work from the customer or other vendors;
- Claims or unapproved change orders;
- Product warranty issues;
- Delayed completion of certain programs for which inventory has been built up; and
- Accrual of contract losses.

Because of the significance of the judgments and estimation processes, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future financial performance. We perform quarterly reviews of our long-term contracts to address and lessen the effects of these risks.

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

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

- Assimilating operations and products may be unexpectedly difficult;
- Management's attention may be diverted from other business concerns;
- We may enter markets in which we have limited or no direct experience;
- We may lose key employees of an acquired business;
- We may not realize the value of the acquired assets relative to the price paid; and
- Despite our due diligence efforts, we may not succeed at quality control or other customer issues.

These factors could have a material adverse effect on our business, financial condition and operating results. Consideration paid for any future acquisitions could include our stock or require that we incur additional debt and contingent liabilities. As a result, future acquisitions could cause dilution of existing equity interests and earnings per share. Before we enter into any acquisition, we perform significant due diligence to ensure the potential acquisition fits with our strategic objectives. In addition, we try to have adequate resources to transition the newly acquired company efficiently.

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

When we acquire a business, we record goodwill equal to the excess of the amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. The Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets", which provides that goodwill and other intangible assets that have indefinite useful lives must be tested at least annually for impairment. SFAS 142 also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. SFAS 142 requires management to make certain estimates and assumptions when allocating goodwill to reporting units and determining the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Fair value is generally determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we generally perform our impairment tests annually as of December 31, using initial annual forecast information. Impairments, if any, are recognized as operating expenses.

If at any time we determine an impairment has occurred, we are required to reflect the reduction in value as an expense within operating income, resulting in a reduction of earnings in the period such impairment is identified and a corresponding reduction in our net asset value.

During the second quarter of 2008, our Aerostructures Wichita, Kansas facility continued to experience production and quality issues, which, along with circumstances unique to each contract, resulted in the separate termination of two long-term contracts with Spirit AeroSystems and Shenyang Aircraft Corporation. These contracts, which represented significant work for the facility, were both loss contracts. In accordance with SFAS 142, we test goodwill for potential impairment annually as of December 31 and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the loss of the two major contracts as well as the continuing production and quality issues, management performed a goodwill impairment analysis for this reporting unit as of June 27, 2008. Based upon the results of our analysis, we recorded an impairment charge of $7.8 million and eliminated the Aerostructures goodwill from our balance sheet as of the end of the second quarter of 2008.

Although we have made significant progress on the JPF fuze program, we performed a similar interim analysis, as of June 27, 2008, with respect to the goodwill recorded in connection with the acquisition of KPP Orlando. This facility has experienced a variety of design and production issues associated with the JPF fuze program, which is forecasted to be its principal source of revenues and earnings in the near term, and that has led to increased inventory levels. Based upon the results of that analysis and the annual analysis performed during the fourth quarter of 2008, we have concluded the goodwill recorded for KPP Orlando has not been impaired. We will continue to monitor this facility's performance in the future.

We rely on the experience and expertise of our skilled employees, and must continue to attract and retain qualified technical, marketing and managerial personnel in order to succeed.

Our future success will depend largely upon our ability to attract and retain highly skilled technical, managerial and marketing personnel. There is significant competition for such personnel in the aerospace and industrial distribution industries. We try to ensure that we offer competitive compensation and benefits as well as opportunities for continued development. There can be no assurance that we will continue to be successful in attracting and retaining the personnel we require to develop new and enhanced products and to continue to grow and operate profitably. We continue to work to recruit and train new personnel as well as maintain our existing employee base.

We are subject to litigation that could adversely affect our operating results.

Our financial results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted. In accordance with generally accepted accounting principles, if a liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time, we will make an estimate of material loss contingencies and establish reserves based on our assessment. Subsequent developments in legal proceedings may affect our assessment. The estimates of a loss contingency recorded in our financial statements could adversely affect our results of operations in the period in which a liability would be recognized. This could also have an adverse impact on our cash flows in the period during which damages would be paid. As of December 31, 2008, we do not have any loss accrual recorded with respect to current litigation matters, as we do not believe that we have met the criteria to establish such a liability.

We have entered into a Deed of Settlement with the Commonwealth of Australia, which terminates the Australia SH-2G (A) program with a mutual release of claims.

Our agreement to accept the return of the aircraft and other inventory is subject to a variety of risks and uncertainties including but not limited to:

- Proper valuation of the inventory;
- The potential absence of a market for the aircraft and spare parts;
- Risk of the inventory becoming obsolete over time resulting in the company recording a lower of cost or market adjustment;
- The additional costs that may be necessary to store, maintain and track the inventory; and
- The obligation to make payments to the Commonwealth of Australia in the future, regardless of aircraft sales.

We believe there is market potential for these aircraft and we have already begun to actively market them to interested potential customers.

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

In recent years, we have been ramping up several new programs as more fully discussed in Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K. The time required and cost incurred to ramp up a new program can be significant and includes nonrecurring costs for tooling, first article testing, finalizing drawings and engineering specifications and hiring new employees able to perform the technical work required. New programs can typically involve greater volume of scrap, higher costs due to inefficiencies, delays in production, and learning curves that are more extended than anticipated, all of which can impact current period results. We have been working with our customers and leveraging our years of experience to effectively ramp up these new programs.

We rely upon development of national account relationships for growth in our Industrial Distribution segment.

Over the past several years, more companies have begun to consolidate their purchases of industrial products, resulting in their doing business with only a few major distributors rather than a large number of vendors. Through our national accounts strategy we have worked hard to develop the relationships necessary to be one of those major suppliers. Competition relative to these types of arrangements is significant. If we are not awarded additional national accounts in the future, or if existing national account agreements are not renewed, our sales volume could be negatively impacted which may result in lower gross margins and weaker operating results. Additionally, national accounts typically require an increased level of customer service as well as investments in the form of opening of new branches to meet our customers' needs. The cost and time associated with these activities could be significant and if the relationship is not maintained, we could ultimately not make a return on these investments. One of our key strategies has been to increase our national account presence. Thus far, we have been successful with our strategy with the addition of several new large national accounts since late 2006. We will continue to focus on this endeavor through 2009 and beyond.

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

We have experienced, and may in the future experience, significant fluctuations in our quarterly operating results that may be caused by many factors. These factors include but are not limited to:

- Changes in demand for our products;
- Introduction, enhancement or announcement of products by us or our competitors;
- Market acceptance of our new products;
- The growth rates of certain market segments in which we compete;
- Size, timing and shipment terms of significant orders;
- Budgeting cycles of customers;
- Mix of distribution channels;
- Mix of products and services sold;
- Mix of domestic and international revenues;
- Fluctuations in currency exchange rates;
- Changes in the level of operating expenses;
- Changes in our sales incentive plans;
- Inventory obsolescence;
- Accrual of contract losses;
- Fluctuations in oil and utility costs;
- Completion or announcement of acquisitions by us; and
- General economic conditions in regions in which we conduct business.

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

Changes in global economic and political conditions could adversely affect our domestic and foreign operations and results of operations.

If our customers' buying patterns, including decision-making processes, timing of expected deliveries and timing of new projects, unfavorably change due to economic or political conditions, there could be an adverse effect on our business. Other potential risks inherent in our foreign business include:

- Longer payment cycles;
- Greater difficulties in accounts receivable collection;
- Unexpected changes in regulatory requirements;
- Export restrictions, tariffs and other trade barriers;
- Difficulties in staffing and managing foreign operations;
- Seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- Economic instability in emerging markets;
- Potentially adverse tax consequences; and
- Cultural and legal differences in the conduct of business.

Any one or more of such factors could have a material adverse effect on our international operations, and, consequently, on our business, financial condition and operating results.

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking information relating to the company's business and prospects, including the Aerospace and Industrial Distribution businesses, operating cash flow, and other matters that involve a number of uncertainties that may cause actual results to differ materially from expectations. Those uncertainties include, but are not limited to: 1) the successful conclusion of competitions for government programs and thereafter contract negotiations with government authorities, both foreign and domestic; 2) political conditions in countries where the company does or intends to do business; 3) standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; 4) domestic and foreign economic and competitive conditions in markets served by the company, particularly the defense, commercial aviation and industrial production markets; 5) risks associated with successful implementation and ramp up of significant new programs; 6) management's success in resolving operational issues at the Aerostructures Wichita facility, including successful negotiation of the Sikorsky Canadian MH-92 program; 7) successful resale of the aircraft, equipment and spare parts obtained in connection with the Australia SH-2G (A) program termination; 8) receipt and successful execution of production orders for the JPF U.S. government contract, including the exercise of all contract options, successful negotiation of price increases with the U.S. government, and receipt of orders from allied militaries, as all have been assumed in connection with goodwill impairment evaluations; 9) satisfactory resolution of the company’s litigation with the U.S. Army procurement agency relating to the FMU-143 program; 10) continued support of the existing K-MAX helicopter fleet, including sale of existing K-MAX spare parts inventory; 11) cost growth in connection with environmental remediation activities at the Bloomfield, Moosup and New Hartford, CT facilities and our recently acquired Brookhouse facilities; 12) profitable integration of acquired businesses into the company's operations; 13) changes in supplier sales or vendor incentive policies; 14) the effects of price increases or decreases; 15) pension plan assumptions and future contributions; 16) future levels of indebtedness and capital expenditures; 17) continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs therefor; 18) the effects of currency exchange rates and foreign competition on future operations; 19) changes in laws and regulations, taxes, interest rates, inflation rates, general business conditions and other factors; 20) future repurchases and/or issuances of common stock; and 21) other risks and uncertainties set forth in the company's annual, quarterly and current reports, and proxy statements. Any forward-looking information provided in this report should be considered with these factors in mind. The company assumes no obligation to update any forward-looking statements contained in this report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our facilities are generally suitable for, and adequate to serve, their intended uses. At December 31, 2008, our business segments occupied major facilities at the following principal locations:

Segment	Location	Property Type
Aerostructures	Jacksonville, Florida; Wichita, Kansas; Darwen, Lancashire, United Kingdom; Hyde, Greater Manchester, United Kingdom	Manufacturing & Office
Precision Products	Middletown, Connecticut; Orlando, Florida; Tuscon, Arizona	Manufacturing & Office
Helicopters	Bloomfield, Connecticut	Manufacturing, Office & Service Center
Specialty Bearings	Bloomfield, Connecticut; Dachsbach, Germany	Manufacturing & Office
Industrial Distribution (1)	Windsor, Connecticut; Ontario, California; Albany, New York; Savannah, Georgia; Salt Lake City, Utah; Louisville, Kentucky; Gurabo, Puerto Rico; Mexico City, Mexico; British Columbia, Canada	Distribution Centers & Office
Corporate	Bloomfield, Connecticut	Office

Square Feet	Total
Aerostructures segment	622,105
Precision Products segment	331,079
Helicopters segment	425,933
Specialty Bearings segment	201,481
Subtotal Aerospace Segments	1,580,598
Industrial Distribution segment	1,660,166
Corporate (2, 3)	619,556
Total	3,860,320

(1) Branches for the Industrial Distribution segment are located across the United States, Puerto Rico, Canada and Mexico.

(2) We occupy a 40 thousand square foot corporate headquarters building in Bloomfield, Connecticut and own another 76 thousand square foot mixed use building that is currently leased to Fender in connection with their acquisition of the Music segment on December 31, 2007. The maximum lease term is 2 years from the date of acquisition.

(3) Approximately 500 thousand square feet of space included in the corporate square footage is attributable to a facility located in Moosup, Connecticut, that was closed in 2003 and is being held for disposition.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the company is subject to various claims and suits arising out of the ordinary course of business, including commercial, employment and environmental matters. We do not expect that the resolution of these matters would have a material adverse effect on our consolidated financial position. Although not material, certain legal proceedings that relate to specific segments of our company are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 18, Commitments and Contingencies, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Other legal proceedings or enforcement actions relating to environmental matters, if any, are discussed in the section of Item 1 entitled Compliance with Environmental Protection Laws.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

PART II

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

MARKET, DIVIDEND AND SHAREHOLDER INFORMATION

Our Common Stock is traded on the NASDAQ Global Market under the symbol "KAMN". As of January 30, 2009, there were 4,106 registered holders of our Common Stock. Holders of the company's Common Stock are eligible to participate in the Mellon Investor Services Program administered by Mellon Bank, N.A. The program offers a variety of services including dividend reinvestment. A booklet describing the program may be obtained by contacting Mellon at (800) 227-0291 or via the web at www.melloninvestor.com.

The following table sets forth the high, low and closing sale prices per share of the Company's Common Stock on the NASDAQ Global Market and the dividends declared for the periods indicated:

NASDAQ Market Quotations (1)

	High	Low	Close	Dividend Declared
2008				
First	$ 38.56	$ 22.08	$ 28.55	$ 0.140
Second	30.12	22.75	22.87	0.140
Third	33.88	21.15	29.96	0.140
Fourth	29.95	16.48	18.13	0.140
2007				
First	$ 24.41	$ 21.38	$ 23.31	$ 0.125
Second	32.59	22.89	31.19	0.125
Third	37.64	29.54	34.56	0.140
Fourth	39.31	30.08	36.81	0.140

(1) NASDAQ market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

ISSUER PURCHASES OF EQUITY SECURITIES

In November 2000, our board of directors approved a replenishment of the company's stock repurchase program providing for repurchase of an aggregate of 1.4 million shares of Common Stock for use in the administration of our stock plans and for general corporate purposes. The following table provides information about purchases of Common Stock by the company during the three months ended December 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan

September 27, 2008 - October 24, 2008	-	$ -	-	1,130,389
October 25, 2008 - November 21, 2008	-	-	-	1,130,389
November 22, 2008 - December 31, 2008	-	-	-	1,130,389
Total	-		-	

PERFORMANCE GRAPH

Following is a comparison of our total shareholder return for the period 2003 – 2008 compared to the S&P 600 Small Cap Index, the Russell 2000 Small Cap Index, and the NASDAQ Non-Financial Composite Index. The performance graph does not include a published industry or line-of-business index or peer group of similar issuers because during the performance period the Company was conducting operations in diverse lines of business and we do not believe a meaningful industry index or peer group can be reasonably identified. Accordingly, as permitted by regulation, the graph includes the S&P 600 Small Cap Index, the Russell 2000 Small Cap Index, both of which are comprised of issuers with generally similar market capitalizations to that of the company, and the NASDAQ Non-Financial index calculated by the exchange on which company shares are traded.

	2003	2004	2005	2006	2007	2008
Kaman	100.0	102.8	164.4	191.4	320.0	161.5
S&P 600	100.0	122.7	132.1	152.0	151.6	104.5
Russell 2000	100.0	118.3	123.7	146.4	144.2	95.4
NASDAQ Non-Financial	100.0	107.8	110.3	120.9	137.2	62.8

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA
(in thousands except per share amounts, shareholders and employees)

	2008 1	2007 2,7	2006 2	2005 2,3,4,5	2004 2,6
OPERATIONS					
Net sales from continuing operations	$ 1,253,595	$ 1,086,031	$ 991,422	$ 909,878	$ 834,191
Net gain (loss) on sale of product lines and other assets	221	2,579	(52)	(27)	199
Operating income (loss) from continuing operations	65,266	64,728	47,822	19,741	(23,615)
Earnings (loss) before income taxes from continuing operations	59,166	57,527	40,660	15,817	(28,225)
Income tax benefit (expense)	(24,059)	(21,036)	(16,017)	(10,743)	9,599
Net earnings (loss) from continuing operations	35,107	36,491	24,643	5,074	(18,626)
Net earnings from discontinued operations, net of taxes	-	7,890	7,143	7,954	6,804
Gain on disposal of discontinued operations, net of taxes	492	11,538	-	-	-
Net earnings (loss)	$ 35,599	$ 55,919	$ 31,786	$ 13,028	$ (11,822)
FINANCIAL POSITION					
Current assets	$ 486,516	$ 491,629	$ 513,231	$ 496,403	$ 468,406
Current liabilities	178,539	182,631	199,126	223,722	226,297
Working capital	307,977	308,998	314,105	272,681	242,109
Property, plant and equipment, net	79,476	53,645	49,954	46,895	46,538
Total assets	762,613	634,863	630,413	598,497	562,331
Long-term debt	87,924	11,194	72,872	62,235	18,522
Shareholders’ equity	274,271	394,526	296,561	269,754	284,170
PER SHARE AMOUNTS					
Net earnings (loss) per share – basic from continuing operations	1.39	1.50	1.02	0.22	(0.82)
Net earnings (loss) per share – basic from discontinued operations	-	0.32	0.30	0.35	0.30
Net earnings (loss) per share – basic from disposal of discontinued operations	0.02	0.47	-	-	-
	$ 1.41	$ 2.29	$ 1.32	$ 0.57	$ (0.52)

Net earnings (loss) per share – basic										
Net earnings (loss) per share – diluted from continuing operations		1.38		1.46		1.01		0.22		(0.82)
Net earnings (loss) per share – diluted from discontinued operations		-		0.31		0.29		0.35		0.30
Net earnings (loss) per share – diluted from disposal of discontinued operations		0.02		0.46		-		-		-
Net earnings (loss) per share – diluted	$	1.40	$	2.23	$	1.30	$	0.57	$	(0.52)
Dividends declared		0.560		0.530		0.500		0.485		0.440
Shareholders' equity		10.77		15.69		12.28		11.28		12.48
Market price range – High		38.56		39.31		25.69		24.48		15.49
Market price range – Low		16.48		21.38		15.52		10.95		10.71
AVERAGE SHARES OUTSTANDING										
Basic		25,228		24,375		24,036		23,038		22,700
Diluted		25,512		25,261		24,869		23,969		22,700
GENERAL STATISTICS										
Registered shareholders		4,107		4,186		4,468		4,779		5,192
Employees		4,294		3,618		3,906		3,712		3,581

(Footnotes on Following Page)

(Footnotes to Information on Preceding Page)

Included within certain annual results are a variety of unusual or significant items that may affect comparability. The most significant of such items are described below as well as within Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements.

1. Results for 2008 include $7,810 in non-cash expense related to the impairment of the goodwill balance related to our Aerostructures Wichita facility, $2,527 related to the write-off of tooling costs at our Aerostructures Wichita facility and $1,587 of expense related to the cancellation of foreign currency hedge contracts originally assumed in connection with the acquisition of Brookhouse.

2. Results for 2007, 2006, 2005 and 2004 include charges for the Australian SH-2G(A) helicopter program of $6,413, $9,701, $16,810 and $5,474, respectively. There were no such charges recorded in 2008.

3. Results for 2005 include $8,265 of expense for the company’s stock appreciation rights, $3,339 for legal and financial advisory fees associated with the recapitalization and $6,754 recovery of previously written off amounts for MD Helicopters, Inc. (MDHI).

4. The effective tax rate for 2005 was 67.9 percent, which was high principally due to the non-deductibility of expenses associated with stock appreciation rights and the company’s recapitalization.

5. Average shares outstanding increased principally due to the completion of the recapitalization in November 2005.

6. Results for 2004 include the following adjustments: $20,083 (including $18,211 negative sales adjustments and $1,872 increase in bad debt reserve) related to the company’s investment in MDHI programs; $7,086 non-cash adjustment for the Boeing Harbour Pointe program; $3,507 warranty reserve for two product warranty related issues and $3,471 non-cash adjustment related to the EODC/University of Arizona contract litigation.

7. The company sold Kaman Music Corporation on December 31, 2007, which resulted in a pre-tax gain on disposal of discontinued operations of $18,065, and the Precision Products segment’s 40mm product line assets, which resulted in a pre-tax gain of $2,570.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers of our consolidated financial statements with the perspectives of management. The MD&A presents in narrative form information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results. This will allow our shareholders to obtain a comprehensive understanding of our businesses, strategies, current trends and future prospects. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Form 10-K. Unless otherwise noted, this MD&A relates only to results from continuing operations. All years presented reflect the classification of Kaman Music’s financial results as discontinued operations.

MANAGEMENT OVERVIEW

During the past year our company has experienced a variety of significant developments, most notably several changes in senior leadership. Neal J. Keating has completed his first year of service as our Chief Executive Officer; Gregory L. Steiner was appointed President of Kaman Aerospace Group and given responsibility for the management of all aerospace operations; and, most recently, William C. Denninger assumed the role of Senior Vice President and Chief Financial Officer following the retirement of Robert M. Garneau. From an organizational perspective, recent acquisitions (including the acquisition of Brookhouse, the largest in our history) and the settlement of our SH-2G helicopter contract with the Royal Australian Navy have had a noticeable impact on our business.

Since his arrival, Mr. Steiner has established a senior level administrative team focused exclusively on our aerospace business. We continue to explore other opportunities to realign the operations of our Aerospace business in order to better leverage our investments, enhance our overall profitability, and better position ourselves to achieve our goal of sustainable growth in the evolving aerospace market. We believe that by aligning the Aerospace operations for growth and efficiency and eliminating organizational redundancies we will be able to improve our market focus and execute our strategies more successfully.

These changes have caused us to undertake an evaluation of our organizational and business structures, taking into consideration various internal and external developments over the past year. We are also evaluating the nature of the financial data being reviewed by senior corporate management. This has led us to consider, among other things, the level of detail and volume of such information, as well as the advantages to be gained by allocating corporate costs to each of our reporting segments. These ongoing studies may lead to actions being taken that could result in a change to our segment reporting information during 2009.

OVERVIEW OF BUSINESS

Kaman Corporation is composed of five business segments:

- Aerostructures, a subcontract supplier for commercial and military aircraft;
- Precision Products, a producer of fuzing devices and memory and measuring systems for a variety of applications;
- Helicopters, a provider of upgrades and support for its existing fleet as well as a subcontractor for other aerospace manufacturers;
- Specialty Bearings, a manufacturer of high-performance mechanical products used in aviation, marine, hydropower, and other industrial applications; and
- Industrial Distribution, the third largest power transmission/motion control industrial distributor in North America.

The following is a summary of key events that occurred in 2008:

- Our net sales from continuing operations increased 15.4% in 2008 compared to 2007.

- Our net earnings from continuing operations decreased 3.8% in 2008 compared to 2007.
- Diluted earnings per share from continuing operations declined to $1.38 in 2008, a decrease of 5.5% compared to 2007.
- Neal J. Keating became Chief Executive Officer on January 1, 2008 and Chairman on March 1, 2008.
- Gregory L. Steiner was appointed President of our Aerospace Group on July 7, 2008. He has responsibility for all four of our aerospace reporting segments.
- William C. Denninger was appointed Senior Vice President and Chief Financial Officer on December 1, 2008.
- The Industrial Distribution and Specialty Bearings segments experienced strong growth in sales and operating profit.
- Our Helicopters segment reached an agreement with the Commonwealth of Australia that terminated the SH-2G(A) Super Seasprite program, with a mutual release of claims.
- On June 12, 2008, we acquired Brookhouse Holdings, Limited (Brookhouse), a leader in the design and manufacture of composite aerostructures, aerospace tooling, and repair and overhaul services based in Darwen, Lancashire, United Kingdom.
- In 2008, our Industrial Distribution segment completed the acquisitions of Industrial Supply Corp. (ISC) of Richmond, Virginia and Industrial Rubber & Mechanics, Incorporated (INRUMEC) of Puerto Rico.
- We signed a contract with Boeing for the Air Force’s A-10 re-wing program, with a potential sales value of approximately $100 million.
- In August 2008, we completed the purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation (of which the Helicopters segment forms a part) had leased from NAVAIR for many years.
- On October 29, 2008, we entered into a 4-year Term Loan Credit Agreement with various banks for $50 million.

RESULTS OF CONTINUING OPERATIONS

Consolidated Results

Net Sales

	2008	2007	2006
		(in thousands)	
Aerostructures	$ 147,641	$ 102,362	$ 78,742
Precision Products	118,009	87,455	71,068
Helicopters	69,435	72,031	69,914
Specialty Bearings	141,540	124,009	106,278
Subtotal Aerospace Segments	$ 476,625	$ 385,857	$ 326,002
Industrial Distribution	776,970	700,174	665,420
Total	$ 1,253,595	$ 1,086,031	$ 991,422
$ change	$ 167,564	$ 94,609	$ 81,544
% change	15.4%	9.5%	9.0%

The increase in net sales for 2008 compared to 2007 was attributable to organic growth in all reporting segments except the Helicopters segment, as well as acquisitions in the Aerostructures and Industrial Distribution segments. In the aerospace businesses net sales increased due to the acquisition of Brookhouse, as well as organic sales growth resulting mainly from increased shipments for the Sikorsky BLACKHAWK helicopter cockpit program and the JPF fuze program. In the Industrial Distribution segment, sales to several new large national accounts, as well as the acquisition of ISC and INRUMEC, contributed to the increase for 2008 compared to 2007.

The growth in consolidated net sales for 2007 compared to 2006 was primarily due to increased shipments on several key product lines in our Aerostructures, Precision Products and Specialty Bearing segments, which were driven by the strong commercial and military aerospace markets. Our Industrial Distribution segment experienced sales growth during 2007 as a result of several new national accounts and continued strength in the Central and West regions.

Gross Profit

	2008	2007	2006
		(in thousands)	
Gross Profit	$ 332,137	$ 300,945	$ 271,423
$ change	31,192	29,522	39,972
% change	10.4%	10.9%	17.3%
% of net sales	26.5%	27.7%	27.4%

Gross profit for 2008 increased primarily due to the increased sales volume at the Industrial Distribution and Specialty Bearings segments and the absence of Australia SH-2G(A) program charges, which amounted to $6.4 million in 2007. These positive results were partially offset by a less favorable product mix for the Precision Products segment and the charges, excluding goodwill, recorded by the Aerostructures segment, as discussed more fully below. Gross profit as a percentage of sales (gross margin) decreased due to the aforementioned product mix changes at our Precision Products segment and the impact of the charges recorded at the Aerostructures Wichita facility.

The increase in the consolidated gross profit for 2007 was primarily attributable to sales growth in the Industrial Distribution and Specialty Bearings segments. In addition, the accrued contract loss charge related to additional anticipated cost growth on our Helicopters segment’s Australia program was $3.3 million less in 2007 as compared to

2006. Gross profit as a percentage of sales (gross margin) improved slightly due to higher sales volume, increased efficiencies and a growing business base at all of our aerospace reporting segments.

Selling, General & Administrative Expenses (S,G&A)

	2008	2007 (in thousands)	2006
S,G&A	$ 259,282	$ 238,796	$ 223,549
$ change	20,486	15,247	11,866
% change	8.6%	6.8%	5.6%
% of net sales	20.7%	22.0%	22.5%

The increase in S,G&A for 2008 compared to 2007 is primarily due to the three acquisitions made during 2008, increases related to higher personnel costs across most of the reporting segments as well as increased bid and proposal activity in the aerospace segments. These increases were partially offset by lower expenses related to fringe benefits, incentive compensation and stock appreciation rights.

The increase in S,G&A for 2007 compared to 2006 was primarily driven by our Industrial Distribution segment and Corporate expenses. Our Industrial Distribution segment experienced higher operating expenses due to additional costs incurred for new branch openings and overall increased personnel costs. Corporate expense increased primarily as a result of an increase in stock compensation expense and higher group insurance expense. Total selling, general and administrative expenses as a percent of net sales decreased 0.5 percentage points in 2007 compared to 2006. This was primarily due to greater sales volume as well as continued cost control efforts.

Goodwill Impairment

During the second quarter of 2008, our Aerostructures Wichita, Kansas facility continued to experience production and quality issues, which, along with circumstances unique to each contract, resulted in the separate termination of two long-term contracts with Spirit AeroSystems and Shenyang Aircraft Corporation. These contracts, which represented significant work for the facility, were both loss contracts. In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), we test goodwill for potential impairment annually as of December 31 and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the loss of the two major contracts as well as the continuing production and quality issues, management performed a goodwill impairment analysis for this reporting unit as of June 27, 2008.

Although we believe we are working through the production issues at our Aerostructures Wichita facility, its carrying value had increased significantly during the second quarter of 2008. This, combined with our loss of two long-term contracts and the quality and production issues at the facility, created a situation in which the estimated fair value of this reporting unit (the legal entity Plastic Fabricating Company, Inc.) was less than its carrying value. The resulting total non-cash goodwill impairment charge was $7.8 million, which represented the entire goodwill balance for this reporting unit prior to the charge. This charge is not deductible for tax purposes and represents a discrete item in our second quarter 2008 effective tax rate.

Operating Income

	2008	2007 (in thousands)	2006
Operating Income	$ 65,266	$ 64,728	$ 47,822
$ change	538	16,906	28,081
% change	0.8%	35.4%	142.2%

% of net sales	5.2%	6.0%	4.8%

The increase in operating income in 2008 compared to 2007 was due to increases in operating income at our Specialty Bearings, Helicopters and Industrial Distribution segments and a decrease in Corporate expenses. These changes were partially offset by lower operating income at our Aerostructures and Precision Products segments. The increase in operating income at our Specialty Bearings, Helicopters and Industrial Distribution segments was primarily a result of program developments and national accounts, as discussed further in the segment sections below, as well as the absence of $6.4 million in charges related to the Australia SH-2G(A) program recorded in 2007. Please refer to the individual segment discussions for details on their operating income.

The increase in operating income for 2007 was primarily attributable to stronger operating results in all of our reporting segments within the aerospace industry as further discussed in the following sections. Our Industrial Distribution segment's operating income was lower in 2007 compared to 2006 partially as a result of a variety of expenses incurred for start-up costs relative to several new national account contracts.

Loss on Ineffective Hedge Contracts

In connection with the acquisition of Brookhouse, we assumed two foreign currency hedge contracts originally intended to hedge forecasted cash flows on a significant U.S. dollar denominated contract. During the third quarter of 2008, we determined these hedges were ineffective, due to a significant shift in the timing of the forecasted cash flows. Therefore, we cancelled the contracts during the third quarter, resulting in a loss of $1.6 million being included in non-operating income in our consolidated statements of operations.

Interest Expense, Net

Net interest expense generally consists of interest charged on the revolving credit facility and other borrowings offset by interest income. Net interest expense for 2008 was $3.0 million as compared to $6.3 million in 2007. The decrease in net interest expense was primarily due to the repayment of a significant portion of our revolving credit line as of December 31, 2007, using the proceeds from the sale of the Music segment, as well as the redemption of all outstanding convertible debentures in late 2007. In the second quarter of 2008, we borrowed against our revolving credit line again to fund working capital requirements and the Brookhouse acquisition.

Net interest expense for 2007 remained relatively flat compared to 2006 primarily due to there having been a similar level of borrowings during 2007 as compared to 2006. Net interest expense in both years generally consisted of interest charged on the revolving credit facility and the convertible debentures offset by interest income.

Effective Income Tax Rate

	2008	2007	2006
Effective income tax rate	40.7%	36.6%	39.4%

The effective tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The increase in the effective tax rate for 2008 compared to 2007 is due to the non-cash goodwill impairment charge of $7.8 million recorded in the second quarter of 2008 for our Aerostructures Wichita facility.

The 2007 effective tax rate was favorably impacted by one-time adjustments resulting from tax law changes in the U.S., as well as internationally, as compared to 2006.

Other Matters

The Connecticut Department of Environmental Protection (“CTDEP”) has given us conditional approval for reclassification of groundwater in the vicinity of the Moosup, CT facility consistent with the character of the area. This facility is currently being held for disposal. We have substantially completed the process of connecting neighboring properties to public drinking water in accordance with such approval and in coordination with the CTDEP and local authorities. We anticipate the water connection project will be completed in early 2009. Site characterization of the environmental condition of the property began in 2008 and is expected to continue during 2009.

In connection with the sale of the Music segment in 2007, we assumed responsibility for meeting certain requirements of the Act that applied to our transfer of the New Hartford, Connecticut, facility leased by that segment for guitar manufacturing purposes ("Ovation"). Under the Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment process began in 2008 and will continue during 2009. The estimate of our portion of the cost to assess the environmental conditions and remediate this site is $2.2 million, unchanged from previously reported estimates.

In August 2008, we completed the purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation (of which the Helicopters segment forms a part) had leased from NAVAIR for many years. In connection with the purchase, we have assumed responsibility for environmental remediation at the facility as may be required under the Connecticut Transfer Act (the “Transfer Act”) and we continue the effort to define the scope of the remediation that will be required by the CTDEP. The transaction was recorded by taking the undiscounted remediation liability of $20,768 and discounting it at a rate of 8% to its present value. The fair value of the Navy Property asset, which approximates the discounted present value of the assumed environmental liability of $10,258, has been included in Property, Plant and Equipment as of December 31, 2008. This remediation process will take many years to complete.

We have accrued $2.4 million for environmental compliance at our recently acquired Brookhouse facilities. We are in the early stages of assessing the work that may be required, which may result in a change to this accrual.

Combined Aerospace Segment Results

The following table presents selected financial data for our combined Aerospace segments:

	2008	2007	2006
Net sales:			
Aerostructures	$ 147,641	$ 102,362	$ 78,742
Precision Products	118,009	87,455	71,068
Helicopters	69,435	72,031	69,914
Specialty Bearings	141,540	124,009	106,278
Total Aerospace segments	$ 476,625	$ 385,857	$ 326,002
$ change	90,768	59,855	38,057
% change	23.5%	18.4%	13.2%

	2008	2007	2006
Operating (loss) income:			
Aerostructures	$ (5,925)	$ 13,219	$ 11,538
Precision Products	7,299	10,546	7,750
Helicopters	10,066	2,631	222
Specialty Bearings	50,168	41,387	28,630
Total Aerospace segments	$ 61,608	$ 67,783	$ 48,140
$ change	(6,175)	19,643	14,855
% change	-9.1%	40.8%	44.6%

The Market

Both the commercial and military aerospace markets remained strong during most of 2008. We believe this positive trend will continue for the military aerospace markets in 2009; however, as a result of the downturn in the global economy, we do not foresee the commercial aerospace market continuing to perform at its 2008 levels. We believe the effect of the downturn in the commercial aerospace market will be somewhat mitigated by our existing military work.

Strategies

Kaman’s strategies for the Aerospace segments are:

- Aerostructures: Expand our global market position as a supplier of complex, composite and metallic structures and integrated subsystems for military and commercial aircraft.

- Precision Products: Become the established leader in bomb and missile fuzes, specialized memory products, precision measuring devices and electro-optic sensor systems for military and commercial applications.

- Helicopters: Leverage systems knowledge and lean manufacturing to take advantage of emerging assembly/subcontracting and after-market/retrofit opportunities as helicopter prime manufacturers focus on system design, integration, and final assembly.

- Specialty Bearings: Maintain leadership in product technical performance and application engineering support while staying ahead of the curve in product technology enhancement, lean manufacturing techniques and lead time reduction.

Aerostructures Segment

		2008		2007		2006
				(in thousands)		
Net Sales	$	147,641	$	102,362	$	78,742
$ change		45,279		23,620		23,759
% change		44.2%		30.0%		43.2%
Operating (Loss) Income	$	(5,925)	$	13,219	$	11,538
$ change		(19,144)		1,681		7,763
% change		-144.8%		14.6%		205.6%
% of net sales		-4.0%		12.9%		14.7%
Backlog on contract	$	260,771	$	130,598	$	84,178

The growth in net sales for 2008 compared to 2007 was partially attributable to $32.3 million of sales by Brookhouse, which was acquired in mid-June 2008. The remainder of the sales growth was due to higher production levels for the Sikorsky BLACK HAWK helicopter program at our Jacksonville facility, offset partially by a decrease in sales at the Aerostructures Wichita facility due to the production and operational issues discussed below. During 2008, the segment delivered 125 cockpits under the BLACKHAWK helicopter program compared to 86 cockpits delivered in 2007. The segment’s 2008 operating income was significantly impacted by charges of $13.0 million related to goodwill impairment and the write-off of inventory and tooling costs at the Aerostructures Wichita facility.

The growth in net sales in 2007 compared to 2006 was primarily due to higher production levels and increased shipments to Sikorsky for the BLACK HAWK helicopter program. During 2007, we delivered 30 more cockpits than in 2006. Additional Sikorsky offload work, Boeing 777 shipments and other Boeing commercial work also contributed to the increase in sales in 2007. Operating income increased primarily as a result of greater sales volume for the Sikorsky BLACK HAWK program. These positive operating results were offset partially by certain adverse adjustments resulting from a rapid increase in manpower, production inefficiencies and excess inventory experienced at the Aerostructures Wichita facility during the ramp up of several programs discussed below.

Major Programs

The Sikorsky BLACK HAWK helicopter cockpit program includes the installation of all wiring harnesses, hydraulic assemblies, control pedals and sticks, seat tracks, pneumatic lines, and the composite structure that holds the windscreen for cockpits on most models of the BLACK HAWK helicopter. In June 2008, Sikorsky placed an order for an additional 238 cockpits bringing total orders placed to date to 549 cockpits. The total potential value of this program is at least $250 million, with deliveries on current orders continuing through 2010. Through December 31, 2008, a total of 283 cockpits had been delivered under this contract.

In mid July 2008, the company signed a long-term requirements contract with Boeing for the production of wing control surfaces (inboard and outboard flaps, slats and deceleron assemblies) for the U.S. Air Force’s A-10 fleet, with initial deliveries scheduled to begin in early 2010. Full rate production is expected to begin in 2011 with an average of approximately 47 shipsets per year through 2015. This multiyear contract has a potential value in excess of $100 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from the U.S. Air Force.

The production of structural wing subassemblies for the Boeing C-17 continues to be important in maintaining a sufficient business base at the Jacksonville facility and will remain so until work under the A-10 program ramps up in 2010. During 2008, we received an order for an additional 30 shipsets, which will extend production under this program through 2010. Additionally, in late 2007 we signed a seven-year follow-on contract with Boeing for the production of fixed wing trailing edge assemblies for the Boeing 777 and 767 aircraft. Shipments under this program were delayed during the second half of the year, due to the International Association of Machinists (IAM) strike at the Boeing Company. Although Boeing was successful in reaching an agreement with the striking machinists, shipments remained behind schedule during the fourth quarter of 2008.

At Aerostructures Wichita, we continue our efforts to implement corrective actions to resolve personnel, quality and production process issues. These issues arose in connection with the facility's rapid expansion to accommodate the ramp up for three contracts awarded in 2006, Spirit AeroSystems and Shenyang Aircraft Corporation for the Boeing 787 Dreamliner program and Sikorsky Aircraft Corporation for the Canadian MH-92 helicopter program. During 2008, Aerostructures Wichita's lack of certification status for a large portion of the year adversely affected our ability to fully perform our obligations under certain contracts. These circumstances, combined with other factors affecting specific programs, resulted in the termination of two of the contracts awarded in 2006. We received a notice from Spirit AeroSystems in June 2008 seeking a default termination of its contract. Management has cooperated with Spirit to achieve the customer’s production objectives while reserving our legal rights with respect to the appropriateness of the contract termination. In addition, in July 2008 the Shenyang contract was terminated under a mutually satisfactory arrangement that essentially waives all potential claims other than warranty items, if any. This arrangement also provides compensation to Aerostructures Wichita for its tooling, which was transferred directly to Boeing. Although both of these terminated programs were loss contracts, they were considered significant to the overall operating results of Aerostructures Wichita.

In addition to the loss of the two contracts, operating issues have led to an increase in inventories due to delays in shipments, higher obsolete inventory, continued inefficiencies in the production process, excess costs to perform additional quality procedures, and an insufficient business base to maintain our overhead structure at Aerostructures Wichita.

Despite these issues, Aerostructures Wichita is making progress on the tail rotor pylon program for Sikorsky's Canadian MH-92 helicopter program. Final assembly for this program is now being performed at the Jacksonville facility. This program has undergone numerous design changes directed by the customer, which have caused costs on this program to grow substantially, and they have reached the point where they exceed the proposed price for the contract. At December 31, 2008, negotiation of this contract has not been finalized. Management believes these incremental costs are recoverable from the customer and that the upcoming contract negotiations will yield an acceptable overall price.

We believe Aerostructures Wichita is an important component of our strategy. The facility, which is in a key location, provides skilled capability in the composites industry. In addition, this facility has a structure that should allow us to become increasingly competitive as we work through our operational issues. During 2008, management responsibility for Aerostructures Wichita was consolidated with the management team at our Jacksonville facility in order to share operational knowledge. We hired key personnel, including the appointment of Gregory L. Steiner as President of our Aerospace Group. The customer who had put the facility on "probation" in the first quarter of 2008 subsequently permitted our resumption of production and shipments in the third quarter; however, that customer continues to require source inspections until all aspects of the corrective actions it has identified are satisfactorily completed. We have invested significant time, resources and capital into this facility and, although there is still significant work to be done, we believe the right management team is in place to meet the challenges ahead.

Brookhouse Acquisition

Brookhouse, our U.K. based facility, was acquired in the second quarter of 2008. Brookhouse designs and manufactures composite aerostructures, aerospace tooling, and performs repair and overhaul services. This acquisition supports our overall aerospace strategy and it expands our presence on a number of additional platforms with solid growth prospects, including the Airbus A320 family, Airbus A330/340, F-35 (Joint Strike Fighter) and Eurofighter. The tooling business adds significant capability to our portfolio and further diversifies our customer base, while the after-market services business increases our capabilities in the repair and overhaul business.

Precision Products Segment

	2008	2007 (in thousands)	2006
Net Sales	$ 118,009	$ 87,455	$ 71,068
$ change	30,554	16,387	6,999
% change	34.9%	23.1%	10.9%
Operating Income	$ 7,299	$ 10,546	$ 7,750
$ change	(3,247)	2,796	4,649

% change	-30.8%	36.1%	149.9%
% of net sales	6.2%	12.1%	10.9%
Backlog on contract	$ 151,552	$ 140,872	$ 169,742

The increase in net sales for 2008 compared to 2007 was primarily due to increased production and shipments of the JPF to the United States Government ("USG") as well as higher shipments on several legacy fuze programs. The decrease in operating income for 2008 compared to 2007 was primarily due to lower foreign military sales of the JPF fuze under the current option. The 2007 results also benefited from higher gross margins on the JPF facilitization program, which was essentially complete in early 2008, and sales of 40mm products, a product line that was sold on December 31, 2007.

The increase in sales for 2007 as compared to 2006 was primarily due to the higher volume of JPF program shipments to both U.S. and foreign militaries as well as greater shipments of 40mm products. The increase in operating income for 2007 was primarily due to the increased shipments to foreign allied militaries for the JPF program, greater sales on the JPF facilitization program as well as higher sales volume on several 40mm contracts.

Major Programs

The JPF program continues to be one of the segment's most important programs and management believes that it has significant potential for growth. The segment has been able to steadily ramp up production in 2008. The total value of JPF contracts awarded by the USG from inception of the program through December 31, 2008 is $194.3 million. This value primarily consists of Options 1 through 5 under the original contract and various contract modifications, including a two-phase facilitization contract modification and additional foreign military sales facilitated by the USG, as well as a variety of development and engineering contracts, along with special tooling and test equipment. We expect we will continue production under the currently awarded options through 2009 and are currently working with the USG for follow-on orders.

In 2008, we achieved our desired production levels of more than 6,000 fuzes per quarter for the final three quarters of the year and were able to ship JPF fuzes to the USG in the required lot sizes. This consistent production capability will allow us to meet our future delivery requirements to the USG and increase opportunities for sales to foreign customers. Our efforts to sell the JPF to foreign allied militaries are important to the ultimate success of this program and will allow us to generate further market penetration, increase sales and improve profitability. We ship to foreign allied militaries under the USG contract as well as direct commercial sales. Typically, we cannot sell any fuzes to our foreign customers until we have met our USG requirements. To date, we have sold smaller lots of fuzes to several foreign allied militaries. The segment also has a significant amount of JPF fuze inventory that does not meet the USG's specifications. Since these fuzes meet the operational requirements of non-U.S. militaries, we are actively marketing them and have received a small number of orders. We also continue to work with the USG to negotiate further price increases, which will lead to improved profitability on this program. We believe we have made meaningful progress on this program and we continue to work to ensure its overall success.

During 2008, we continued to make progress on production improvements and enhancements of the JPF fuze system. The facilitization program has contributed to our increased production and has been another important element of our strategy to improve our quality and efficiency on the JPF program. The facilitization program provided us an opportunity to review production workflow to create greater efficiencies, qualify a second Kaman site (Middletown) for full production of JPF fuzes, and create an enhanced fuze design. The enhanced design is expected to reduce the number of technical issues so a more steady state of production can be achieved more efficiently. During the first quarter of 2009, we passed the final tests necessary to begin production of the fuze under the enhanced design. We are scheduled to begin production of the enhanced design fuzes at the Middletown facility during the first quarter of 2009 and KPP Orlando during the second quarter of 2009. We believe the value of these initiatives will be more fully realized in 2009 and beyond.

Warranty and Contract-Related Matters

There continues to be two warranty-related matters that impact the FMU-143 program at KPP Orlando. The items involved are an impact switch, embedded in certain bomb fuzes, that was recalled by a supplier and an incorrect part, called a bellows motor, found to be contained in bomb fuzes manufactured for the U.S. Army utilizing systems which originated before KPP Orlando was acquired by Kaman. The U.S. Army Sustainment Command (USASC), the procurement agency that administers the FMU-143 contract, had authorized warranty rework for the bellows motor matter in late 2004/early 2005; however, we were not permitted to finish the rework due to issues raised by the

USASC primarily related to administrative matters and requests for verification of the accuracy of test equipment (which accuracy was subsequently verified).

In late 2006, the USASC informed us that it was changing its remedy under the contract from performance of warranty rework to an "equitable adjustment" of $6.9 million to the contract price. We responded, explaining our view that we had complied with contract requirements. In June 2007, the USASC affirmed its position but rescinded its $6.9 million demand (stating that its full costs had not yet been determined) and gave instructions for disposition of the subject fuzes, including both the impact switch and bellows motor related items, to a Navy facility and we complied with that direction. To date, USASC has not made a demand for any specific amount.

As reported previously, a separate contract dispute between KPP Orlando and the USASC relative to the FMU-143 fuze program is now in litigation. USASC has basically alleged the existence of latent defects in certain fuzes due to unauthorized rework during production and has sought to revoke their acceptance. Management believes that the Precision Products segment has performed in accordance with the contract and it is the government that has materially breached its terms; as a result, during the fourth quarter of 2007, we cancelled the contract and in January 2008, we commenced litigation before the Armed Services Board of Contract Appeals (the "Board") requesting a declaratory judgment that our cancellation was proper. At about the same time, the USASC notified us that it was terminating the contract for default, making the allegations noted above, and we filed a second complaint with the Board appealing that termination decision. The litigation process continues.

Helicopters Segment

	2008	2007 (in thousands)	2006
Net Sales	$ 69,435	$ 72,031	$ 69,914
$ change	(2,596)	2,117	(6,738)
% change	-3.6%	3.0%	-8.8%
Operating Income	$ 10,066	$ 2,631	$ 222
$ change	7,435	2,409	(1,023)
% change	282.6%	1085.1%	-82.2%
% of net sales	14.5%	3.7%	0.3%
Backlog on contract	$ 45,416	$ 106,269	$ 116,028

Sales for the Helicopters segment were comprised primarily of the upgrade and maintenance program for Egypt, subcontract work for Sikorsky and MDHI and SH-2G program spare parts. The decrease in sales for 2008 compared to 2007 was primarily due to the termination of the production and service contract related to the Australian SH-2G(A) Super Seasprite program, as well as work performed for Egypt in 2007 that was not repeated during 2008 and lower SH-2 program spare parts sales. These decreases were partially offset by increased sales for Sikorsky and MDHI. Operating income increased primarily due to the absence of an accrued contract loss charge for the Australia program in 2008 as well as higher gross margins on subcontract sales. Australian program charges were $6.4 million in 2007. The decrease in the backlog on contract is a result of the termination of the SH-2G(A) Super Seasprite program with the Commonwealth of Australia. See below for further discussion of the termination of this program.

The higher sales for our Helicopters segment during 2007 as compared to 2006 were a result of a greater volume of work on the depot level maintenance and upgrade program for the Egyptian SH-2G(E) aircraft and the Sikorsky BLACK HAWK helicopter program. The Sikorsky program involves fuselage joining and installation tasks along with various mechanical subassemblies. The increase in operating income for 2007 was primarily driven by lower charges on the Australian program during 2007 as compared to 2006 as well as increased sales volume. Total charges on the Australian program in 2006 were $9.7 million.

Major Programs

The company and the Commonwealth of Australia entered a settlement agreement during the first quarter of 2008 that terminated the SH-2G(A) Super Seasprite program on mutually agreed terms. The agreement provided for a transfer of ownership to the company of the 11 SH-2G(A) Super Seasprite helicopters (along with spare parts and associated equipment), after which proceeds from the sale of these items would be shared on a predetermined basis. This transfer of ownership occurred on February 12, 2009 (the Transfer Date).

In connection with sharing sale proceeds, we have agreed that total payments of at least $39.5 million (AUS) will be made to the Commonwealth regardless of sales, with at least $26.7 million (AUS) to be paid by March 2011, and, to the extent cumulative payments have not yet reached $39.5 million (AUS), additional payments of $6.4 million (AUS) each in March of 2012 and 2013. During the fourth quarter of 2008, we entered into forward contracts for the purpose of hedging these required payments. These contracts cover $36.5 million (AUS) of the $39.5 million (AUS) in required payments and have been accounted for in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 137 and Statement of Financial Accounting Standards No. 138" ("SFAS 133"). See Note 6, Derivative Financial Instruments, in the Notes to Consolidated Financial Statements for further discussion.

To secure these payments, the company provided the Commonwealth with a $39.5 million (AUS) unconditional letter of credit on the Transfer Date. This letter of credit will be reduced as such payments are made. Additionally, under the settlement agreement, the company forgave payment of approximately $32 million in net unbilled receivables in exchange for the helicopters, spare parts and equipment, which will be recorded as inventory on the Transfer Date, at a value representing the net unbilled receivables and the guaranteed payments, described above. Management has determined that the value of this transferred inventory exceeds the amount of the net unbilled receivables and the guaranteed payments. We do not currently expect the transfer to have a material impact on our statement of operations. The termination of the contract, combined with the return of inventory, will result in our inability to claim look-back interest from the IRS, previously expected to exceed $6 million pretax. Additionally, sales relative to the service center, which had been a meaningful portion of Helicopters segment net sales in recent years, ended at the conclusion of the support center ramp down period, which occurred during the fourth quarter of 2008.

In anticipation of the successful transfer of the helicopters, segment management has attended trade events, obtained marketing licenses required by the USG and has begun discussions with many potential foreign government buyers of the helicopters.

We continue our work under a program for depot level maintenance and upgrades for nine SH-2G(E) helicopters delivered to the Egyptian government during the 1990s. Through December 31, 2008, we are on contract for approximately $50 million of work related to maintenance and upgrades. This program has a potential total contract value of approximately $92 million. The segment also continues to perform subcontract work for Sikorsky involving fuselage joining and installation tasks and the production of certain mechanical subassemblies and for MDHI in regard to Rotor Blade System deliveries. These programs have been important elements of our business base over the recent past.

During 2008, we continued to work under a contract from the Army Material Research Development and Engineering Command for follow-on work associated with development of the BURRO Unmanned Resupply Helicopter, utilizing the K-MAX helicopter. In January 2008, the segment and Lockheed, under our previously disclosed agreement, jointly acquired three K-MAX helicopters from a U.S. Government General Services Administration auction for an average cost of $4.3 million. Two of the aircraft were purchased by Lockheed and the third is owned by the company. The aircraft are being used to further develop the BURRO program.

In August 2008, the company completed its purchase of the portion of the Bloomfield campus Kaman Aerospace Corporation (of which the Helicopters segment forms a part) had leased from NAVAIR for many years. In connection with the purchase, we have assumed responsibility for environmental remediation at the facility as may be required under the Connecticut Transfer Act (the “Act”) and we continue the effort to define the scope of the remediation that will be required by the Connecticut Department of Environmental Protection (“CTDEP”). Management believes the fair value of the property of $10.3 million approximated the discounted present value of the cost of the environmental remediation at the date of purchase. This remediation process will take many years to complete.

Specialty Bearings Segment

	2008	2007	2006
		(in thousands)	
Net Sales	$ 141,540	$ 124,009	$ 106,278
$ change	17,531	17,731	14,037
% change	14.1%	16.7%	15.2%
Operating Income	$ 50,168	$ 41,387	$ 28,630
$ change	8,781	12,757	3,466
% change	21.2%	44.6%	13.8%
% of net sales	35.4%	33.4%	26.9%
Backlog on contract	$ 92,997	$ 96,790	$ 80,646

The increase in net sales for 2008 as compared to 2007 was a result of higher shipments in the commercial jet liner market (including the aftermarket), regional jet market and helicopter market, our KAflex product line and a favorable foreign currency rate change. The Euro exchange rate in 2008 had a favorable impact on net sales of approximately 2% compared to 2007. Operating income for 2008 increased primarily due to the increased sales volume, which allows us to leverage our fixed costs, and continued lean manufacturing improvements on the production line.

The increase in net sales during 2007 as compared to 2006 was primarily attributable to higher shipments to customers principally in the regional jet market and military aircraft market, as well as, strong growth in the commercial aftermarket and engine market. To a lesser extent, the increase in sales was also attributable to the currency translation effect on the Euro, which positively affected the U.S. dollar value of sales reported by our Germany facility. Operating income increased primarily due to the increased sales volume, continued lean improvements on the production line and higher absorption of S,G&A expenses during 2007 as compared to 2006.

Major Programs

The aerospace market continued to be strong through the fourth quarter of 2008 although our results were slightly impacted by the Boeing strike that was settled in the fourth quarter of 2008. There was a delay of approximately one month in the 2008 production schedule for Boeing programs due to the impact of the strike. The current economy creates an uncertain environment for our customers and many have already been, and will continue to be, impacted. We anticipate the business jet market will decline in 2009 as well as work for the Commercial Aftermarket as air travel lessens. Although we are watchful of the current economic situation, our diverse customer mix provides us some degree of stability in the changing economy. Our backlog remains strong although we believe many customers are being more cautious with long lead orders.

We continue to focus on our strategy to provide a high quality product with shorter lead times than our competitors, to customers in both the commercial and military markets. Although there is increasing competition, we believe the technological enhancements we make to our current products, as well as the development of new products, will preserve our competitive advantages, increase our customer base, and lead to further penetration of both domestic and foreign markets.

Industrial Distribution Segment

	2008	2007 (in thousands)	2006
Net Sales	$ 776,970	$ 700,174	$ 665,420
$ change	76,796	34,754	43,487
% change	11.0%	5.2%	7.0%
Operating Income	$ 35,397	$ 33,038	$ 35,160
$ change	2,359	(2,122)	5,745
% change	7.1%	-6.0%	19.5%
% of net sales	4.6%	4.7%	5.3%

The increase in net sales during 2008 as compared to 2007 was due to a balance of organic growth and the contribution of the two acquisitions during the year, representing approximately $43.4 million in sales. The remaining increase was due to higher sales to new national accounts, some of which were ramping up during 2007. This sales growth was partially offset by the slowing industrial market and uncertain economy, particularly in the latter half of the fourth quarter of 2008. During the year, we continued to make investments in infrastructure and opened three new branches and one new distribution center in the United States. As previously disclosed, these investments in infrastructure and personnel have had an impact on our operating income and it will take several years for the benefits of these investments to be fully realized. Operating income increased for 2008 compared to 2007 primarily due to the increase in organic sales volume primarily in the first nine months of the year. Results for the fourth quarter of 2008 were significantly impacted by the rapid decline in sales to OEMs and a deterioration in capital spending by Maintenance, Repair and Overhaul (“MRO”) organizations.

The increase in net sales during 2007 as compared to 2006 was primarily due to the ramp up of national account business, as well as continued strength in the energy and power generation, mining and oil exploration and food processing industries. During 2007, despite the increase in sales volume and the associated increase in gross margin, we experienced a decrease in operating income compared to 2006. The decrease was partially attributable to additional start up costs for new branch openings and other implementation costs we incurred to support several new national account contracts awarded in 2007 and late 2006. Additionally, during 2007 we experienced an increase in overall operating expenses and higher personnel costs primarily driven by increased headcount necessary to support our growing business base.

Industrial Distribution Trends

The Market

Because of our diverse customer base, our performance tends to track the U.S. Industrial Production Index. We are therefore affected, to a large extent, by the overall business climate for our customer industries and their plant capacity utilization levels, and the effect of pricing spikes and/or supply interruptions for basic commodities such as steel and oil. The strength of certain markets varied considerably by industry type during 2008. While certain markets and products, such as paper manufacturing and food and beverage processing, remain steady, other industries have experienced a decline, including metal and machinery manufacturing, and more recently mining. Our business has been adversely impacted by the downturn in these industries; however, we are taking action to mitigate these negative trends through measured and appropriate cost cutting activities, continued focus on our acquisition strategy and initiatives aimed at improving both our gross and operating margins.

Our Strategy

The primary strategy for the Industrial Distribution segment is to:

1. Expand our geographic footprint in major industrial markets to enhance our position in the competition for regional and national accounts.

In order to increase our geographic footprint, we continue to explore potential acquisition candidates as well as establish branches in locations that are consistent with our strategic objectives. By so doing, we will more clearly establish our business as one that can provide comprehensive services to our customers who are continually looking to streamline their procurement operations and consolidate supplier relationships. During 2008, we made two strategic acquisitions of ISC, in March, and INRUMEC, in October. Both of these acquisitions will allow us to compete in new markets and offer new products to our current customers. They also increase our size and therefore our ability to take advantage of strategic buying and rebates.

2. Broaden our product offerings to gain additional business from existing customers and new opportunities from a wider slice of the market.

In recent years, we have worked to increase market share in several growing markets including the mining, energy and food and beverage industries. We are also expanding our presence in the energy and utilities markets, two other less cyclical industries. We believe we have been successful in this endeavor, as evidenced by our national account wins, and continue to target these industries. We also continued to build our government business group to service our recently awarded 5-year contract with the General Services Administration Center for Facilities Maintenance and Hardware (“GSA”) which allows us to supply government agencies with MRO products from our major product categories.

LIQUIDITY AND CAPITAL RESOURCES

Discussion and Analysis of Cash Flows

We assess the company's liquidity in terms of our ability to generate cash to fund working capital, investing and financing activities. Significant factors affecting liquidity include: cash flows generated from or used by operating activities, capital expenditures, investments in our business segments and their programs, acquisitions, divestitures, dividends, adequacy of available bank lines of credit, and factors that might otherwise affect the company's business and operations generally, as described under the heading “Risk Factors” and “Forward-Looking Statements” in Item 1A of Part I of this Form 10-K.

We continue to rely upon bank financing as an important source of support for our business activities including several recent acquisitions. We believe this, when combined with cash generated from operating activities, will be sufficient to support our anticipated liquidity requirements for the foreseeable future. We anticipate a variety of items will have an impact on our liquidity during the next 12 months, aside from our normal working capital requirements. These may include the resolution of any of the matters described in Management’s Discussion and Analysis, including the FMU-143 contract litigation, the letter of credit to guarantee payments to the Commonwealth, the cost of environmental remediation associated with the purchase of the NAVAIR property, the operational issues at the Aerostructures Wichita facility, and future Supplemental Employees’ Retirement Plan (“SERP”) payments and required pension contributions. However, we do not believe any of these matters will lead to a shortage of capital resources or liquidity that would prevent us from continuing with our business operations as expected.

We are watchful of the recent developments in the credit markets and are assessing the impact the current economic downturn may have on the company. Although we had recent success in executing a Term Loan Credit Agreement, the current market may restrict or prohibit us from securing the additional financing necessary to continue with our growth strategy and finance working capital requirements. The trends in the market may have an impact on the company through lower customer spending as well as higher interest rates on borrowings going forward. Additionally, with the significant downturn in the current financial markets, our pension plan assets have significantly decreased, resulting in higher pension plan contributions and the expectation of a significant increase in pension expense in 2009. See Note 16, Pension Plans, in the Notes to Consolidated Financial Statements, for further information.

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

	2008	2007	2006	08 vs. 07	07 vs. 06
			(in thousands)		
Total cash provided by (used in):					
Operating activities	$ (13,705)	$ 25,581	$ (769)	$ (39,286)	$ 26,350
Investing activities	(125,776)	95,661	(15,307)	(221,437)	110,968
Financing activities	75,055	(56,452)	12,350	131,507	(68,802)

Net cash used in operating activities increased $39.3 million in 2008 compared to 2007. This increase in cash used is primarily attributable to increased cash requirements to fund working capital needs in 2008 as compared to 2007 as specifically discussed below:

- Inventory levels increased in the Helicopters segment, primarily due to the acquisition of a K-MAX aircraft, and in the Aerostructures segment, primarily due to higher amounts of inventory at the Aerostructures Wichita facility.
- Inventory has also increased at our Precision Products segment, although it is anticipated that the JPF inventory, the largest driver of this increase, will decrease in 2009 as additional progress payments are billed and as more fuzes are shipped.
- Higher payments of prior year accrued fringe benefits and incentive compensation during 2008.
- Total cash payments for income taxes increased significantly, primarily due to the taxes paid on the gain resulting from the Music segment sale.
- The company paid out a significant amount of SERP payments in 2008 compared to 2007 primarily attributable to the retirement of the former Chief Executive Officer and Chief Financial Officer.

Net cash used in investing activities increased $221.4 million in 2008 compared to 2007. The increase is primarily attributable to the acquisitions of Brookhouse and ISC during the second quarter of 2008 and the acquisition of INRUMEC during the fourth quarter of 2008, the absence of cash inflows from the sale of our former Music segment in 2007, and the increase in capital expenditures at the Specialty Bearings, Aerostructures and Industrial Distribution segments.

Net cash provided by financing activities increased $131.5 million in 2008 compared to 2007. We had net borrowings under the Revolving Credit Agreement of $31.6 million for 2008 as compared to repayments of $45.3 million for 2007. The significant change was driven by the issuance of long-term debt in 2008 and proceeds from the exercise of employee stock options, offset partially by the payment of dividends.

Net cash provided by operating activities increased in 2007 compared to 2006 due to changes in accounts receivable and inventory. We generated a significant amount of cash from accounts receivable in 2007 compared to 2006, primarily due to considerable cash collections in our Aerostructures and Helicopters segments for several key programs. This was partially offset by an increase in accounts receivable at our Precision Products and Industrial

Distribution segments, primarily due to increased sales volume in the latter portion of the year. Inventory increased significantly, most notably in our Aerostructures segment as it ramped up for new programs.

Total investing activity for 2007 included cash proceeds from the divestiture of our Music segment of $119.5 million as well as cash proceeds from the sale of the 40mm assets of $5.5 million. Cash outflows for investing activities related primarily to capital expenditures within all the reporting segments. Each segment's capital expenditures were considered essential to continue to ramp up for new programs, have the tools necessary to effectively compete in the marketplace and have the capacity necessary to meet our customers' expectations. Additionally, the Industrial Distribution segment purchased the final 9.2% interest in Delamac de Mexico S.A. de C.V. in the first quarter of 2007 for $0.5 million.

We used a portion of the cash proceeds from the Music transaction to pay down all of the balance owed under our revolving credit agreement, except for our Euro note, at the end of 2007. Other financing cash outflows related primarily to payment of the quarterly dividend.

Financing Arrangements

We maintain a $200 million revolving credit facility (Revolving Credit Agreement) expiring August 4, 2010. The facility includes the availability of funding in foreign currencies as well as an “accordion” feature that provides the company the opportunity to request, subject to bank approval, an expansion of up to $50 million in the overall size of the facility. A significant amount of this facility was used to fund the acquisition of Brookhouse in the second quarter of 2008. On October 29, 2008, we executed a Term Loan Credit Agreement (“Term Loan Agreement) with The Bank of Nova Scotia, Bank of America, N.A., Fifth Third Bank, and RBS Citizens, N.A. (collectively the “Banks”). The Term Loan Agreement, which is in addition to our current Revolving Credit Agreement, is a $50 million facility with a four-year term, including quarterly payments of principal at the rate of 2.5% with 62.5% of the initial aggregate principal payable in the final quarter. We may increase the term loan, up to an aggregate of $50 million with additional commitments from Banks or new commitments from acceptable financial institutions. Additionally, the covenants required are the same as those in place under the Revolving Credit Agreement. In conjunction with this agreement, the current Revolving Credit Agreement was amended to acknowledge the existence of the Term Loan Credit Agreement and adopt certain provisions of the Term Loan Credit Agreement.

Total average bank borrowings for 2008 were $62.8 million compared to $82.9 million for 2007. As of December 31, 2008, there was $129.4 million available for borrowing under the Revolving Credit Agreement, net of letters of credit. Letters of credit are generally considered borrowings for purposes of the Revolving Credit Agreement. A total of $27.7 million in letters of credit were outstanding under the Revolving Credit Agreement at December 31, 2008, $20.4 million of which was related to the Australia SH-2G(A) program. In connection with the ownership transfer that occurred on February 12, 2009, we cancelled these letters of credit and issued a new letter of credit for the previously described guaranteed minimum payment of $39.5 million (AUS).

Facility fees and interest rates under the Revolving Credit Agreement are determined on the basis of the company's credit rating from Standard & Poor's. In June 2008, Standard & Poor's re-affirmed the company’s rating as investment grade BBB- with an outlook of stable. We believe this is a favorable rating for a company of our size. Under the terms of the Revolving Credit Agreement, if this rating should decrease, the effect would be to increase facility fees as well as the interest rates charged. The financial covenants related to the Revolving Credit Agreement and Term Loan Agreement include a requirement that the company have i) EBITDA, at least equal to 300 percent of net interest expense, on the basis of a rolling four quarters and ii) a ratio of consolidated total indebtedness to total capitalization of not more than 55 percent. The agreement also incorporates a financial covenant which provides that if the company's EBITDA to net interest expense ratio is less than 6 to 1, the ratio of i) accounts receivable and inventory for certain Kaman subsidiaries to ii) the company's consolidated total indebtedness cannot be less than 1.6 to 1. We remained in compliance with those financial covenants as of and for the year ended December 31, 2008.

Other Sources/Uses of Capital

For 2009, we will make a contribution of approximately $10.9 million to our tax-qualified defined benefit pension plan, and approximately $5.7 million in SERP payments. For the 2008 plan year, we made cash contributions of approximately $7.0 million to our tax-qualified defined benefit pension plan. Additionally during 2008, we paid approximately $18.0 million in SERP payments, a large portion of which were made in February and August 2008 to our former Chief Executive Officer for his final lump sum SERP payment and in November to our former Chief Financial Officer. For the 2007 plan year, we made a cash contribution of $10.0 million to our tax-qualified defined benefit pension plan and $2.4 million in payments for our SERP.

In November 2000, the company's board of directors approved a replenishment of the Company's stock repurchase program, providing for repurchase of an aggregate of 1.4 million common shares for use in administration of the

Company's stock plans and for general corporate purposes. There were no shares repurchased during 2008. At December 31, 2008, approximately 1.1 million shares were authorized for purchase under this program.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

The following table summarizes certain of the company’s contractual obligations as of December 31, 2008:

	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	$ 94.1	$ 6.2	$ 52.9	$ 35.0	$ -
Interest payments on debt (A)	15.9	3.9	8.5	3.5	-
Operating leases	41.9	16.7	18.2	5.9	1.1
Purchase obligations (B)	179.9	147.9	31.5	0.5	-
Other long-term obligations (C)	30.6	5.1	7.9	6.6	11.0
Planned funding of pension and SERP (D)	33.5	15.6	4.5	7.2	6.2
Total	$ 395.9	$ 195.4	$ 123.5	$ 58.7	$ 18.3

Note: For more information refer to Note 12, Credit Arrangements – Short-Term Borrowing and Long-Term Debt; Note 18, Commitments and Contingencies; Note 17, Other Long-Term Liabilities; Note 16, Pension Plans, and Note 15, Income Taxes in the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

(A) Interest payments on debt within one year are based upon the long-term debt that existed at December 31, 2008. After one year interest payments are based upon average estimated long-term debt balances outstanding each year.

(B) 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.

(C) This category includes obligations under the company's long-term incentive plan, deferred compensation plan, a supplemental disability income arrangement for one former company officer and unrecognized tax benefits under FIN 48.

(D) This category includes planned funding of the company’s SERP and qualified defined benefit pension plan. Projected funding for the qualified defined benefit pension plan beyond one year has not been included as there are several significant factors, such as the future market value of plan assets and projected investment return rates, which could cause actual funding requirements to differ materially from projected funding.

Off-Balance Sheet Arrangements

The following table summarizes the company’s off-balance sheet arrangements:

	Payments due by period (in millions)				
Off-Balance Sheet Arrangements	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Acquisition earn-out (1)	$ 6.6	$ 0.4	$ 1.5	$ 3.1	$ 1.6

Total	$	6.6	$	0.4	$	1.5	$	3.1	$	1.6

1) The obligation to pay earn-out amounts depends upon the attainment of specific milestones for KPP Orlando, an operation acquired in 2002.

The company currently maintains $27.7 million in outstanding standby letters of credit under the Revolving Credit Agreement. Of this amount, $20.4 million is related to the Australia SH-2G(A) Super Seasprite program. In connection with the transfer of the inventory that occurred on February 12, 2009, we cancelled these letters of credit and issued a new letter of credit for the previously described guaranteed minimum payment of $39.5 million (AUS).

CRITICAL ACCOUNTING ESTIMATES

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

Long-Term Contracts

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
For long-term aerospace contracts, we generally recognize sales and income based on the percentage-of-completion method of accounting, which allows for recognition of revenue as work on a contract progresses. We recognize sales and profit based upon either (1) the cost-to-cost method, in which profit is recorded based upon the ratio of costs incurred to estimated total costs to complete the contract, or (2) the units-of-delivery method, in which sales are recognized as deliveries are made and cost of sales is computed on the basis of the estimated ratio of total cost to total sales. Management performs detailed quarterly reviews of all of our long-term contracts. Based upon these reviews, we record the effects of adjustments in profit estimates each period. If at any time management determines that in the case of a particular contract total costs will exceed total contract revenue, we record a provision for the entire anticipated contract loss at that time.	The percentage-of-completion method requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and in some cases projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers, and financial professionals. Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and the future availability of materials and labor resources could affect the company's ability to estimate future contract costs.	While we do not believe there is a reasonable likelihood there will be a material change in estimates or assumptions used to calculate our long-term revenues and costs, estimating the percentage of work complete on certain programs is a complex task. As a result, changes to these programs could have a significant impact on our results of operations. These programs include the Sikorsky Canadian MH-92 program, the Sikorsky BLACK HAWK program, the JPF program, and several other programs including the Boeing A-10 program. Estimating the ultimate total cost of these programs has been challenging partially due to the complexity of the programs, the ramping up of the new programs, the nature of the materials needed to complete these programs, change orders related to the programs and the need to manage our customers' expectations. These programs are an important element in our continuing strategy to increase operating efficiencies and profitability as well as broaden our business base. Management continues to monitor and update program cost estimates quarterly for these

		contracts. A significant change in an estimate on one or more programs could have a material effect on our financial position or results of operations.

Allowance for Doubtful Accounts

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
The allowance for doubtful accounts represents management's best estimate of probable losses inherent in the receivable balance. These estimates are based on known past due amounts and historical write-off experience, as well as trends and factors impacting the credit risk associated with specific customers. In an effort to identify adverse trends for trade receivables, we perform ongoing reviews of account balances and the aging of receivables. Amounts are considered past due when payment has not been received within a pre-determined time frame based upon the credit terms extended. For our government and commercial contracts, we evaluate, on an ongoing basis, the amount of recoverable costs. The recoverability of costs is evaluated on a contract-by-contract basis based upon historical trends of payments, program viability and the customer's credit-worthiness.	Write-offs are charged against the allowance for doubtful accounts only after we have exhausted all collection efforts. Actual write-offs and adjustments could differ from the allowance estimates due to unanticipated changes in the business environment as well as factors and risks associated with specific customers. As of December 31, 2008 and 2007, our allowance for doubtful accounts was 1.2 percent and 1.1 percent of gross receivables, respectively. Receivables written off, net of recoveries, in 2008 and 2007 were \$0.8 and \$0.7 million, respectively.	Currently we do not believe that we have a significant amount of risk relative to the allowance for doubtful accounts. A 10% increase in the allowance would have a \$0.2 million effect on pre-tax earnings.

Inventory Valuation

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We have four types of inventory (a) merchandise for resale, (b) contracts in process, (c) other work in process, and (d) finished goods. Merchandise for resale is stated at the lower of the cost of the inventory or its fair market value. Contracts in process, other work in process and finished goods are valued at production cost comprised of material, labor and overhead, including general and administrative expenses on certain government contracts. Contracts in process, other work in process, and finished goods are reported at the lower of cost or net realizable value. We include raw material amounts in the contracts in process and other work in process balances. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs that have not been started as of the balance sheet date. The total amount of raw material included in these in process amounts is less than 10.0% of the total inventory balance for 2008 and 2007.	The process for evaluating inventory obsolescence or market value issues often requires the company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business. We adjust our inventory by the difference between the estimated market value and the actual cost of our inventory to arrive at net realizable value. Changes in estimates of future sales volume may necessitate future write-downs of inventory value. Based upon a market evaluation performed in 2002 we wrote down our K-MAX inventory by \$46.7 million in that year. The K-MAX inventory balance, consisting of work in process and finished goods, was \$23.6 million as of December 31, 2008. We believe that it is stated at net realizable value, although lack of demand for spare parts in the future could result in additional write-downs of the inventory value. Overall, management believes that our inventory is appropriately valued and not subject to further obsolescence in the near term.	Inventory valuation at our Industrial Distribution segment generally requires less subjective management judgment than the valuation of certain inventory in the four reporting segments that comprise the Aerospace businesses. Management reviews the K-MAX inventory balance on an annual basis to determine whether any additional write-downs are necessary. If such a write down were to occur, this could have a significant impact on our operating results. A 10% write down in this inventory at December 31, 2008, would have affected pre-tax earnings by approximately \$2.4 million in 2008.

Vendor Incentives

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
Our Industrial Distribution segment enters into agreements with certain vendors providing for inventory purchase rebates that are generally earned upon achieving specified	Our participation in these types of programs is an important element of our Industrial Distribution segment business. These types of programs are common in distribution businesses.	If we were to reduce our participation in vendor incentive programs, this could have a significant impact on our operating results.

volume purchasing. The rebate percentages may increase or decrease based upon the amount of inventory purchased or sold annually. Each program is analyzed and reviewed each quarter to determine the appropriateness of the projected annual rebate. Historically, differences between our estimates and actual rebates subsequently received have not been material.

We recognize rebate income relative to specific rebate programs as a reduction of the cost of inventory based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in progress toward earning the rebate, provided that the amounts are probable and reasonably estimable.

Although we believe we will continue to receive vendor incentives, there is no assurance that our vendors will continue to provide comparable amounts of rebates in the future. Also, we cannot estimate whether we will continue to utilize the vendor programs at the same level as in prior periods.

Goodwill and Other Intangible Assets

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
Goodwill and certain intangible assets that have indefinite lives are evaluated at least annually for impairment. All intangible assets are also reviewed for possible impairment whenever changes in conditions indicate that their carrying value may not be recoverable. The annual evaluation is generally performed during the fourth quarter, based on the initial annual forecast information. The identification and measurement of goodwill impairment involves the estimation of fair value of the reporting unit as compared to its carrying value. The carrying value of goodwill and other intangible assets having indefinite lives was \$111.8 million and \$46.2 million as of December 31, 2008 and 2007, respectively. See Note 9, Goodwill and Other Intangible Assets, Net, in the Notes to Consolidated Financial Statements for discussion of \$7.8 million of goodwill impairment recorded during the year ended December 31, 2008. Based upon its annual evaluation, management has determined that there has been no further impairment of its goodwill balances.	We determine fair value using widely accepted valuation techniques, including discounted cash flow. Management's estimates of fair value are based upon factors such as projected sales and growth rates, discount rates and other elements requiring significant judgments. The discount rates we utilize reflect the risk and uncertainty in the financial markets and specifically in our internally developed earnings projections. We utilize currently available information regarding present industry and economic conditions and future expectations to prepare our estimates and perform impairment evaluations.	We do not currently believe there is a reasonable likelihood that there will be a material change in estimates or assumptions used to test for impairment losses on goodwill and other intangible assets. However, if actual results are not consistent with our estimates or assumptions or if current economic conditions persist, we may be exposed to an impairment charge that could be material. Based upon our analysis, a 1.0 percentage point increase in the discount rate used would not have resulted in any goodwill impairment. Additionally, a 10.0 percent decrease in the fair value of our reporting units also would not have resulted in any goodwill impairment.

Self-Insured Retentions Liabilities

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We have varying levels of deductibles for losses related to health, workers' compensation, auto and product/general liability claims. To limit our exposure to these claims we	Liabilities associated with these claims are estimated in part by considering historical claims experience, severity factors and other actuarial assumptions. Projections of	The financial results of the company could be significantly affected if future claims and assumptions differ from those used in determining these liabilities. If more claims are made

obtain third party insurance coverage. Our total liability/deductible for workers' compensation is limited to $0.4 million per claim and for general liability and auto liability, we are limited to $0.3 million per claim. The cost of such benefits is recognized as expense based on claims filed in each reporting period and an estimate of claims incurred but not reported ("IBNR") during such period. The estimates for the cost of the claims are based upon information provided to us by the claims administrators and are periodically revised to reflect changes in loss trends. Our IBNR estimate is based upon historical trends. future losses are inherently uncertain because of the random nature of insurance claims occurrences and the possibility that actuarial assumptions could change. Such self-insurance accruals likely include claims for which the losses will be settled over a period of years. than were estimated or if the costs of actual claims increases beyond what was anticipated, reserves recorded may not be sufficient and additional accruals may be required in future periods. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% change in our self-insurance reserve would affect our 2008 pre-tax earnings by $0.5 million.

Long-Term Incentive Programs

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
The company maintains a Stock Incentive Plan, which provides for share-based payment awards, including non-statutory stock options, restricted stock, stock appreciation rights, and long-term incentive program (LTIP) awards. We determine the fair value of our non-qualified stock option awards at the date of grant using a Black-Scholes model. We determine the fair value of our restricted share awards at the date of grant using an average of the high and low market price of our stock. LTIP awards provide certain senior executives an opportunity to receive award payments, generally in cash. For each performance cycle, the company's financial results are compared to the Russell 2000 indices for the same periods based upon the following: (a) average return on total capital, (b) earnings per share growth and (c) total return to shareholders. No awards will be payable unless the company's performance is at least in the 25th percentile of the designated indices. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation. Awards will be paid out at 100% at the 50th percentile. In order to estimate the liability associated with LTIP awards, management must make assumptions as to how our current performance compares to current Russell 2000 data	Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the fair value estimate. Our long-term incentive plan requires management to make assumptions regarding the likelihood of achieving long-term company goals as well as estimate the impact the Russell 2000 results may have on our accrual.	We do not currently believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material. If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation. A 10% change in our stock-based compensation expense for the year ended December 31, 2008, would have affected net earnings by approximately $0.2 million in 2008. Due to the timing of availability of the Russell data, there is a risk that the amount we have recorded as LTIP expense could be different from the actual payout. A 10.0 percentage point increase in the total performance factor earned for our LTIP would result in a reduction of 2008 pretax earnings of $0.2 million.

based upon the Russell 2000's historical results. This analysis is performed on a quarterly basis. When sufficient Russell 2000 data for a year is available, which typically will not be until April or May of the following year, management will adjust the liability to reflect its best estimate of the total award. Actual results could differ significantly from management's estimates. The total liability as of December 31, 2008 was $4.3 million.

Pension Plans

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We maintain a qualified defined benefit pension plan for our full-time U.S. employees (with the exception of certain acquired companies that have not adopted the plan) as well as a non-qualified Supplemental Employees Retirement Plan (SERP) for certain key executives. Expenses and liabilities associated with each of these plans are determined based upon actuarial valuations. Integral to these actuarial valuations are a variety of assumptions including expected return on plan assets, discount rate and rate of increase in compensation levels. We regularly review these assumptions, which are updated at the measurement date, December 31st, and disclosed in Note 16, Pension Plans, in the Notes to Consolidated Financial Statements included in this Form 10-K. In accordance with generally accepted accounting principles, the impact of differences between actual results and the assumptions are accumulated and generally amortized over future periods, which will affect expense recognized in future periods. We believe that two assumptions, the discount rate and the expected rate of return on plan assets, are important elements of expense and/or liability measurement.	The discount rate represents the interest rate used to determine the present value of future cash flows currently expected to be required to settle the pension obligation. For 2008, management reviewed the Citigroup Pension Discount Curve and Liability Index to determine the continued appropriateness of our discount rate assumptions. This index was designed to provide a market average discount rate to assist plan sponsors in valuing the liabilities associated with postretirement obligations. Additionally, we reviewed the change in the general level of interest rates since the last measurement date noting that overall rates had decreased since 2007. Based upon this information, we used a 6.15 percent discount rate as of December 31, 2008 for the qualified benefit pension plan. This rate takes into consideration the participants in our pension plan and the anticipated payment stream as compared to the Citigroup index and rounds the results to the nearest fifth basis point. For the SERP, we used the same methodology as the pension plan and derived a discount rate of 6.15 percent in 2008 for the benefit obligation. The qualified defined benefit pension plan and SERP used discount rates of 6.4 percent and 5.9 percent, respectively at December 31, 2007 for purposes of calculating the benefit obligation. The difference in the discount rates is primarily due to the expected duration of SERP payments, which is shorter than the	A lower discount rate increases the present value of benefit obligations and increases pension expense. A one percentage point decrease in the assumed discount rate would have increased pension expense in 2008 by \$3.4 million. A one percentage point increase in the assumed discount rate would have decreased pension expense in 2008 by \$1.3 million. A lower expected rate of return on pension plan assets would increase pension expense. The expected return on plan assets was 8.0 percent for December 31, 2008. A one-percentage point increase/decrease in the assumed return on pension plan assets assumption would have changed pension expense in 2008 by approximately \$4.3 million.

anticipated duration of benefit payments to be made to the average participant in the pension plan.

The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested to provide for anticipated benefit payments. The expected return on assets assumption is developed based upon several factors. Such factors include current and expected target asset allocation, our historical experience of returns by asset class type, a risk premium and an inflation estimate.

Income Taxes

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
Tax laws in certain of our operating jurisdictions require items to be reported for tax purposes at different times than the items are reflected in our financial statements. One example of such temporary differences is depreciation expense. Other differences are permanent, such as expenses that are never deductible on our tax returns, an example being a charge related to the impairment of goodwill. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our financial statements. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment is not yet due or the realized tax benefit of expenses we have already reported in our tax returns, but have not yet recognized as expense in our financial statements. As of December 31, 2008, we had recognized $87.9 million of net deferred tax assets, net of valuation allowances. The realization of these benefits is dependent in part on future taxable income. For those foreign countries or U.S. states where the expiration of tax loss or credit carry forwards or the projected operating results indicates that realization is not likely, a valuation allowance is provided.	Management believes that sufficient income will be earned in the future to realize deferred income tax assets, net of valuation allowances recorded. The realization of these deferred tax assets can be impacted by changes to tax laws or statutory tax rates and future taxable income levels. Our effective tax rate on earnings from continuing operations was 40.7 percent for 2008. Our effective tax rate is based on expected or reported income or loss, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are valid and defensible, we believe that certain positions may not prevail if challenged. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit or changes in tax legislation. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate. This rate is then applied to our quarterly operating results. In the event that there is a significant unusual or one-time item recognized in our operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item.	The Company anticipates that total unrecognized tax benefits will decrease by $0.8 million due to settlements of tax examinations within the next twelve months. We file tax returns in numerous U.S. and foreign jurisdictions, with returns subject to examination for varying periods, but generally back to and including 2005. It is our policy to record interest and penalties on unrecognized tax benefits as income taxes. A one percent change to our tax rate would affect our 2008 earnings by $0.6 million.

Derivatives and Hedging

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We use derivatives to manage risks related to foreign exchange and our net investment in certain foreign subsidiaries. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivative accounting are complex. If a derivative does not meet the complex requirements established as a prerequisite for hedge accounting, changes in the fair value of the derivative must be reported in earnings rather than as a component of other comprehensive income, without regard to the offsetting changes in the fair value of the hedged item.	In evaluating whether a particular relationship qualifies for hedge accounting, we first determine whether the relationship meets the strict criteria to qualify for exemption from ongoing effectiveness testing. For a relationship that does not meet these criteria, we test effectiveness at inception and quarterly thereafter by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. This test is conducted each reporting period. If fair value changes fail this test, we discontinue applying hedge accounting to that relationship prospectively. Fair values of both the derivative instrument and the hedged item are calculated using internal valuation models incorporating market-based assumptions.	At December 31, 2008, derivative assets were $1.0 million and we had recorded $0.8 million, net of tax, in other comprehensive income. The amount recorded to other comprehensive income would have been recorded in the Consolidated Statement of Operations for the year ended December 31, 2008 had the criteria for hedge accounting not been met. Changes in the fair value of these instruments will be recorded to other comprehensive income until the point where either the Company stops utilizing the derivative instruments as a hedge or the derivative instruments no longer provide an effective hedge against the impact of foreign currency changes on the underlying transaction. Further information about our use of derivatives is provided in Note 6, Derivative Financial Instruments, in the Notes to Consolidated Financial Statements.

Environmental Costs

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As a result, we have established and update, as necessary, policies relating to environmental standards of performance for our operations worldwide. When we become aware of an environmental risk, we perform a site study to ascertain the potential magnitude of contamination and the estimated cost of remediation. This cost is accrued using a reasonable discount factor based on the estimated future cost of remediation. In 2008, the primary accrual for remediation related to our purchase of the Navy property as more fully discussed in Note 11, Environmental Costs, and Note 18, Commitments and Contingencies, in the Notes to Consolidated Financial Statements. We continually evaluate the identified environmental issues to ensure the time to complete the remediation and the total cost of remediation are consistent with our initial estimate. If there is any change in the cost and/or timing of remediation, the accrual is adjusted accordingly.	Environmental costs are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including existing technology, current laws and regulations and prior remediation experience. Liabilities with fixed or readily determinable payment dates are discounted.	At December 31, 2008, amounts accrued for known environmental remediation costs were $16.1 million. A 10% change in this accrual could have impacted pre-tax earnings by $1.6 million. Further information about our environmental costs is provided in Note 11, Environmental Costs, in the Notes to Consolidated Financial Statements. We believe that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon our competitive position, consolidated financial position, results of operations or cash flows.

RECENT ACCOUNTING STANDARDS

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

Form 10-K.

SELECTED QUARTERLY FINANCIAL DATA

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share amounts)				
Net Sales	$ 285,781	$ 316,285	$ 335,133	$ 316,396	$ 1,253,595