1967 ANNUAL REPORT

KAMAN
CORPORATION

Business Groups, Divisions and Subsidiaries

AEROSPACE
Kaman Aircraft

GENERAL AVIATION
AirKaman, Inc.
AirKaman of Omaha, Inc.

SCIENCE AND TECHNOLOGY
Kaman Nuclear
Kaman Systems Center
Science Engineering Associates
Kaman Avidyne

SPECIAL PRODUCTS
Kaman Instruments
Automation Machinery
KAcarb Products

MUSIC
Ovation Instruments
Coast Wholesale Music Company of Los Angeles, Inc.
Coast Wholesale Music Company of San Francisco, Inc.

Plants and Offices

CALIFORNIA
COLORADO
CONNECTICUT
MARYLAND
MASSACHUSETTS
NEBRASKA
TEXAS
WASHINGTON, D.C.

Corporate Offices:
BLOOMFIELD, CONNECTICUT 06002
DIAL 242-4461 • AREA CODE 203

22nd Annual Report

for the year ended December 31, 1967

IN BRIEF

	1967 Pro Forma*	1967 Unadjusted	1966
Sales	$70,382,898	$65,400,682	$45,981,871
Net Income	1,641,216	1,437,134	1,205,343
Earnings per share	2.59	2.39	2.13
Equity per share	22.42	20.66	16.48

*For an explanation of "Pro Forma" see page 13

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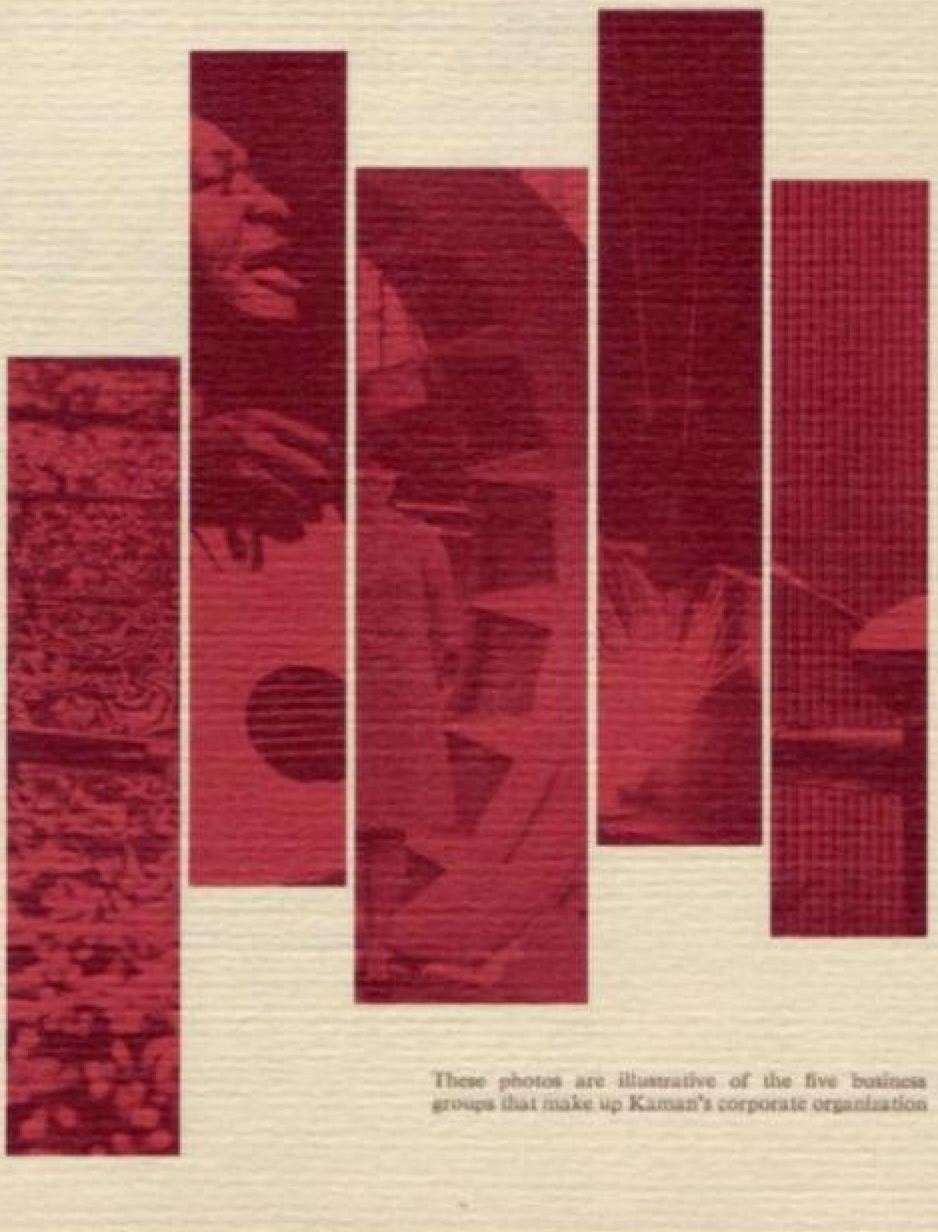

These photos are illustrative of the five business groups that make up Kaman's corporate organization

REPORT FROM THE PRESIDENT

This is my first report to you as president of the "new" Kaman Corporation. It is a report of accomplishments–of the orderly growth and expansion of our businesses, of new levels of earnings and employment, of a new business era. We are experiencing confidence in our company, of the attainment of our goals, and in reaching for exciting new goals for tomorrow.

During 1967 Kaman grew on all fronts. We experienced increased sales in nearly all divisions, we developed new businesses in house, and, importantly, we grew through acquisition to broaden the business base from which we will operate in the future. Especially significant, our earnings increased in a year when many corporate earnings were level or off substantially.

Confidence is a wonderful thing to witness, and here at Kaman during the past year we have had more than our reasonable share. This reflects the confidence Kaman Corporation has come to enjoy from the stockholders, and the appreciation on the part of our investing public of the company's growth, its progress, and its future. We accomplished major new financing and we are well set to launch into new areas. Especially we will seek to explore and develop those areas where Kaman's advanced technology gives us the capability to move faster and with more certainty.

Three major moves now enable us to undertake an aggressive acquisition program–1) Our name change, 2) restructuring of the company into five major business groups: Aerospace, General Aviation, Science & Technology, Special Products, Music, and 3) the authorization of additional Class A and B common stock and a serialized preferred stock. This program will continue and will afford us entry in new markets, providing broader stability and growth opportunity to all of our businesses.

Four major new product lines were brought to market in 1967–candy packing machines, aircraft galley and food handling systems, KAcarb self-lubricating bearings, and an exciting new line of electric guitars and amplifiers. All have met with an excellent initial response, and all hold great promise.

Increased sales required enlarged and improved facilities. For the first time, we exceeded a million square feet of production floor space. We expanded our Aircraft Division facilities at Moosup and Windsor Locks, and added facilities in Windsor and Danielson in Connecticut. Kaman Instruments in Austin, Texas, and Kaman AviDyne in Burlington, Mass. both moved into larger, more efficient buildings, and AirKaman, Inc. doubled its space at Bradley International Airport. Kaman Nuclear added a 30,000 square foot office wing. Two of Kaman's newest businesses–Automation Machinery Division, Rocky Hill, Conn., and Ovation Instruments Division, New Hartford, Conn.,–began production in newly leased plants during the year.

Traditionally, a large percentage of Kaman employees are trained and experienced in the technical/scientific disciplines, and this asset keeps us on the cutting edge of new technologies. Our scientists, engineers and researchers continue a reputation for excellence and creativity. Kaman Nuclear, for example, was selected for two of the 100 Industrial Research awards made for the most significant technical advances of the year. Our record in this award competition places Kaman among the first 12 technology-based companies in the world–an especially outstanding accomplishment relative to our size.

In our Aircraft Division we streamlined our production management structure in order to improve our responsiveness to the needs of our customers and our relative position within this highly competitive field. We received additional contracts from the U.S. Navy to convert UH-2 SEASPRITE helicopters to a twin-engine configuration designated UH-2C, made deliveries of the first UH-2C's, and established a production line for the program. We expect it to continue for some time. Production of a limited quantity of HH-43 HUSKIE helicopters for Iran was begun in 1967 and will continue into 1968.

Our selective search and evaluation of companies for acquisition included a great many, some of which we continue to analyze. Broad recognition by others of acquisition as a means of accelerated corporate growth has made this job even more critical, but we are doing very well. By the end of 1967 we had firm agreements for acquisition of three different companies. These were consummated just after the first of this year. Two of these are major musical instruments distributors in the eleven western states they cover—Coast Wholesale Music Company of Los Angeles, and Coast Wholesale Music Company of San Francisco. They, together with our Ovation Instruments Division, make up Kaman's newest group, Music.

January of this year also saw the addition of a second general aviation business to the Kaman family. We acquired the assets of Duncan Aviation and Duncan Beechcraft—a fixed base, general aviation business in Omaha, Nebraska. Organized as AirKaman of Omaha, Inc., the new enterprise will function as part of AirKaman, Inc., our wholly owned subsidiary and fixed base operator at Bradley International Airport, Windsor Locks, Conn. AirKaman of Omaha is a Beechcraft distributor in four midwestern states and has complete electronic and engine overhaul facilities for business aviation. This move gives us an enhanced opportunity in the fast-paced general aviation market.

Over the past years we have seen remarkable growth in employment, facilities, earnings and equity. We are confident it will continue.

Kaman Corporation is people. The most important factor in our growth has been the demonstrated capability of our people to rise to new challenges, meet them, and go on from them. Their devotion and dedication to our common goals is a source of strength and inspiration to all of us.

The invaluable support given to Kaman by our employees, customers, community and stockholders is a reflection of the confidence we have enjoyed. We continue to welcome that support and confidence for the years ahead when the problems and decisions, opportunities and challenges will be even greater than in 1967.

Charles H Kaman

THE YEAR 1967

It has been a most successful year. Highlights of operations are shown in the frontispiece of this report. Complete financial results are detailed starting on page thirteen.

Management has continued its program to build the company through market-oriented business groups. This program has been further strengthened by the establishment of a separate Corporate Headquarters staff rendering financial, marketing and planning support to the five business groups, and through them to our nine divisions and four subsidiaries.

The business groups—Aerospace, Science & Technology, General Aviation, Special Products, and Music—with their own cohesive internal structure and serving special markets, operate as independent business entities. Corporate Headquarters provides direction and advice in matters outside their normal business environment.

Each of the business groups represents a distinct field of activity and a meeting point between the talents of our people and special growth opportunities. We project these fields to exceed the national rate of growth by healthy margins. Our corporate goal is to become leaders in these chosen areas.

A typical instance is the corporate program to put the company in the nuclear energy field. Working closely with the staff of the Nuclear Division, company officials have recruited additional scientific and marketing talent and established program guidelines for the new, combined team. We are now poised to broaden our base in the nuclear business.

Along with guiding the growth and development of the business groups, Headquarters staff analyzes new areas of opportunity and evaluates the establishment of new divisions or acquisitions.

We believe that the most important key to our growth, in the future as in the past, is giving talented, energetic people the environment to develop to the fullest.

AEROSPACE

Kaman's diversification of programs within the Aerospace Group during 1967 resulted in a sales increase of more than 48 per cent from 1966 levels.

Kaman Aircraft's helicopter sales accounted for slightly more than half of group sales, while our aircraft component production programs grew toward full production status. Component production accounted for 45 per cent of aircraft sales, up sharply from 20 per cent a year earlier.

As planned several years ago, Kaman has achieved a balanced production program spread among manufacture of helicopters, helicopter components, components for strategic aircraft, tactical aircraft, military transports, passenger transports and light planes. This widespread programming protects against any sudden shifts in national defense or aircraft procurement policies.

Kaman's Aircraft Division entered a new field during 1967—galley systems for commercial planes. Under contract to Eastern Air Lines, Kaman delivered its first ship set of galleys to Eastern within 83 days from a standing start. Word of prompt delivery, high quality work and a reliable product spread quickly through the airline industry, and Kaman is a leading contender to build galleys for the next generation of jet transports, including the jumbo jets and the airbus. Transport aircraft and airline traffic are among the fastest growing of all businesses, and Kaman Aircraft is optimistic about winning a large share of the equipment for this market. The division has obtained other galley supply contracts from McDonnell-Douglas Aircraft and was established as an approved supplier to certain Boeing jet transports.

Grumman, McDonnell-Douglas, General Electric and Lockheed were the major customers of our jet component business in 1967. The Grumman programs which have been with Kaman since 1963 continue at a very satisfactory level. The McDonnell-Douglas programs were through their build-up phase and into routine delivery. The new work for Lockheed and General Electric was for major components for the huge new cargo and troop transport, the USAF C-5. Kaman is making 75 per cent of the thrust reverser, and the flaps, spoilers and other smaller components. Lockheed currently estimates the C-5 production program could run to 400 or more aircraft.

Despite the demands of the Vietnam war, there are no new helicopter programs in the procurement planning phase. Military helicopter purchases tend to center on existing designs. In this limited market Kaman Aircraft was very fortunate to win its UH-2 retrofit program—converting the single engined UH-2's to twin engined versions. The UH-2C will be the most modern helicopter in service in 1968.

We received an $11 million Navy order for the retrofit work. By the end of the year the first UH-2C aircraft were delivered, deployed, and production was established at three aircraft a month. Follow-on contracts were obtained to continue the program into

1969. Production of HH-43 HUSKIES continued for foreign governments. With more than 400 helicopters in service, Kaman also maintains a substantial business in spare parts and overhaul.

In a related business, assorted rescue equipment was sold to the military, mostly for use in Southeast Asia.

We took another long and hard look at our prospects for introducing helicopters for private or business use. Existing markets do not justify the investment for new designs and production, but we will continue to follow it closely.

In research and development, the lifeblood of an aerospace business, contracts were obtained for work and studies in such fields as vibration analysis, auto safety research, and for a revolutionary new helicopter rotor design, the Controllable Twist Rotor. The CTR, as it is known, has attracted much technical interest for the potential it offers in significant advancement of helicopter speeds, range and payload. Presently in the early analytical stages, the CTR program could lead to test hardware in 1968.

GENERAL AVIATION

AirKaman, Inc., Kaman's wholly owned subsidiary in the general aviation field, experienced an increase in earnings on reduced sales in 1967. Through more efficient management we eliminated some of the less productive lines and increased profits to new highs.

AirKaman's basic business activities—Beechcraft sales, service to general aviation, jet maintenance, aircraft rental and charter, sales of parts and repairs, and fuel sales to airlines—were all substantially in line with or ahead of the steady growth of general aviation.

New England's first Jet Maintenance Center was established at AirKaman headquarters, Bradley International Airport. Demands for charter of AirKaman's jet aircraft increased to the point where additional jets are being considered for purchase.

Sales of fuel to the 11 airlines with scheduled flights at Bradley increased again along with the airport's traffic. AirKaman is now delivering fuel at the rate of nearly a million gallons a month, almost double the 1966 rate. Meanwhile, with more and more charter airlines using the field and AirKaman services, Bradley Airport is set to become a major port of entry for foreign flights.

Acquisition of the assets of Duncan Aviation and Duncan Beechcraft companies in Omaha (Nebraska) early in 1968 extends the services of AirKaman halfway across the continent. A new company, AirKaman of Omaha, Inc., was established to take over the operation of the business at Eppley Field, Omaha, and Millard, Nebraska. They are Beechcraft distributors in North Dakota, South Dakota, Western Iowa and most of Nebraska. The excellent service reputation enjoyed by AirKaman in the Northeast will carry over to the Midwest and translate into greater use of AirKaman's Omaha operation by corporate pilots already appreciative of the quality of service given by the parent company.

In turn, as AirKaman's service reputation grows in Omaha, Midwest businessmen flying east would be likely to seek AirKaman service at Bradley.

SCIENCE & TECHNOLOGY

The range of sophisticated services, advanced products, and technological expertise offered by Kaman's Science & Technology Group continued to broaden in 1967. This resulted in a 57 per cent growth in sales for that group. It represents 14% of total company sales for 1967.

As a whole, the Group–Kaman Nuclear, Kaman AviDyne, Kaman Systems Center and SEA–grew in personnel and facilities as well as in sales, and all obtained significant new contracts extending their work in their special areas of competence.

In line with the stated corporate program to broaden into the fields of nuclear power and the application of nuclear technology to the mining and conversion of fossil fuels, a team of company staff and high level consultants has been established. They have made good progress in plotting their program and getting underway.

Founded eleven years ago as Kaman's first major diversification effort, Kaman Nuclear experienced increases in sales, profits, personnel, facilities and product lines this past year, while maintaining current programs, obtaining new business, and laying the foundation for a substantial business in the commercial applications of nuclear technology.

A Control Data 6400 superscale computer system and a NCR 315 business computer were installed at Kaman Nuclear in late 1967 for use by the division, and for major expansion of its Computer Service Center, now among the larger ones in the country. The superfast system permits large scale time sharing for up to 200 simultaneous users. Kaman Nuclear has contracted with financial institutions in the Colorado Springs area for time sharing and is rapidly expanding this service.

Defense work on several missile programs, including Nike-X and Polaris/Poseidon, resulted in commendations from the Department of Defense. Of special note was the "41 for Freedom" citation to Kaman Nuclear for outstanding performance on the Polaris program.

Industrial displacement transducers were introduced. Present customers include several major turbine manufacturing companies. Kaman transducers are presently being used to indicate flatness in steel and aluminum, and are being developed for thickness measurement in rolling mill applications. Three activation analysis systems for measuring protein content of foods, and oxygen content in metals, were installed and are operating successfully.

New developments included K-ramic, a new ceramic bearing material which has been licensed for use by a major U.S. company, a special antenna array system being evaluated for satellite navigation, and the world's first pumpless 10^{11} neutron generator. The neutron generator has been delivered to the National Center for Atmospheric Research.

Like its sister divisions, Kaman AviDyne experienced growth in important areas. In its third expansion move in four years, Kaman AviDyne moved into a new 13,000 square foot office and research center in Burlington, Massachusetts in late 1967. Sales for the past year were up 50 per cent over 1966.

Follow-on and new contracts were received from the NASA Electronics Research Center in the areas of lifting body vehicle all-weather landing systems, and APOLLO re-entry vehicle guidance and control design criteria. A contract was completed to develop an aircraft vulnerability handbook for the Defense Atomic Support Agency.

A continuing major effort has been in the area of nuclear weapon effects on anti-ballistic missile systems.

Other principal activities continued under Department of Defense contracts in the fields of structural analysis and design criteria for advanced flight vehicles, blast vulnerability effects on aircraft, missiles and antenna systems, and wind shear and gust loads on ballistic missiles.

Plans for 1968 include expansion into new aerospace study areas, and preliminary development of an instrumentation laboratory to penetrate the experimental hardware market.

Established as a separate division in 1967, Kaman Systems Center expanded its activities in operations analysis, program evaluation, communication analysis, reliability and cost effectiveness studies during the year, while sales tripled and staff doubled in size.

Recognition by government and industry of the capability of Kaman scientists in the fields of systems and operations analysis continues to expand. The Systems Center also performs services for other divisions of the company.

In the field of technological transfer, a contract was obtained from the Agency for International Development to evaluate programs for AID's International Training Division. In marketing studies, evaluation of the U.S. market for products of a European company was begun.

Technical Material Corporation selected Kaman Systems Center for application of Kaman signal cancellation devices in an electronic communication system. Initial results have been highly successful, and Kaman Systems Center anticipates expanded use of these devices.

Oceanography continues to be one of the most potential and exciting areas of opportunity for our nation. Science Engineering Associates being concerned with both ocean engineering and the more long range theoretical oceanographic studies, has weathered the storm of massive federal research cutbacks in good shape. In fact, many areas of the division's activities expanded—buoy and ship mooring studies, wave and wave force analysis, and water pollution studies. SEA won several new contracts with follow-on significance.

Two U.S. Navy contracts are for study of a manned underwater station, either on the ocean floor or in the underlying rock, and for the design of an in-port facility for checking sonar equipment performance during shipyard overhaul and construction.

The Argus Island deep ocean research work has been suspended, we hope temporarily, but SEA continued its study concontract calling for oscillation studies of Lake Erie.

In the field of mooring, SEA completed a theoretical and model study for a manufacturer of offshore terminals for unloading super tankers. Another new contract is for studying water pollution in the Potomac estuary caused by dredging operations.

SPECIAL PRODUCTS

Kaman's Special Products Group more than doubled sales in 1967. Overall, this group represents the smallest total sales among the four business groups operating within the corporation, but they have the highest profit margins and the most immediate growth potential.

KAcarb Products, Kaman's entry into the bearing field, passed from infancy into manhood this past year. Self-lubricating KAcarb bearings installed in Navy/Kaman UH-2 SEASPRITES lived up to their advance billing for long life and corrosion resistance.

Orders for additional KAcarb bearings for installation on other Navy helicopters are in the works. As the year ended, a field evaluation with the U.S. Army was underway. In this evaluation the remarkable new bearings were installed on operational UH-1 "Huey" helicopters. As the program requires hundreds of flying hours, it may be summer 1968 before conclusive results are available, but early indications are basis for strong optimism on the part of the company and Army officials who have sponsored the program.

Even at this early stage in its development, KAcarb Products is a self-sustaining business.

Developed from Kaman technology, the bearings are ceramic-coated titanium balls running in a carbon outer race. Operating in the most corrosive environment—salt water and sand—they have performed superbly, outlasting by a wide margin the best of current designs.

Initial use of KAcarb bearings will be in helicopters, fixed wing aircraft and space vehicles. Other bearing applications requiring self-lubrication, or with a corrosive environment, are being investigated.

Enjoying an increase in sales and personnel, Kaman Instruments in 1967 moved into a large new plant in Science Park, Austin, Texas to continue production of bank intercom systems, electronic components for language laboratories, and medical instrumentation, as well as to continue research and development of new products.

Kaman Instruments' capability in electronics was well suited to develop for Ovation Instruments Division a superior amplifying system. Electronic amplifiers for Ovation were designed, produced and delivered during the year.

Sales to the three largest bank equipment suppliers of automatic two-way intercom systems for drive-in bank windows continued strong. Orders on hand will push total production of bank intercoms since first delivery to over 10,000 units. Volume production included electronic components and packages for language laboratories, stereophonic library listening tables and portable stenographic laboratories.

A digital cardiotachometer, which measures and digitally displays heart rate, has been installed at NASA's Manned Spacecraft Center in Houston. It was used in the Gemini missions, and similar units will be used at Cape Kennedy during the upcoming Apollo "Man to the Moon" Program. Research continues into development of additional bio-instrumentation applicable to the growing sophistication of modern medical and surgical technology.

This was a breakthrough year for the Automation Machinery Division. In late summer, Automation's first automatic packing machine was delivered to a major U.S. candy manufacturer. The second production unit was delivered to another candy company as the year ended. Orders were in hand for follow-on machines. The machines cost between $30,000 and $300,000, depending on size, and the estimated U.S. market for these machines is about 300 units.

The packing of dipped or coated chocolates is one of the last real hand labor processes in the candy industry. Sales of boxed chocolates have been deterred by the lack of available personnel. With an Automation Machinery unit, personnel requirements are reduced by one third, and production is doubled, for an overall labor savings of 60 per cent over previous methods.

Although candy packing is the first application of Automation's capabilities, adaptations of present machines can handle many kinds of fragile items such as eggs, cookies, electronic parts and explosives. Marketing studies will be directed toward these fields and others, such as mail handling.

Office and production facilities for the new division were established in Rocky Hill, Conn.

MUSIC

Kaman's Music Group, the most recent structural entity, is comprised of three businesses with which Kaman penetrates the huge entertainment market. Ovation Instruments Division, organized in 1966, accounted for a substantial share of the growth realized by the Special Products Group in which it was included during 1967. The two newly acquired Coast Wholesale Music Companies were joined with Ovation to form the nucleus of a

Music Group. The company has stated plans initially to extend its line of music equipment and eventually reach into the broader recreation-entertainment field.

In its first full year of operation, Ovation Instruments exceeded its production and sales goals for six lines of folk and classic acoustic guitars, established manufacturing facilities in New Hartford, Conn., expanded its sales force and distribution system, and introduced five electric guitar models—two six-string, one twelve-string and two electric basses—plus three electronic amplifier models.

A number of well-known entertainers—the Turtles, Buffy St. Marie, Josh White, Janis Ian, Richie Havens and many others—have adopted Ovation guitars for their own use in concert and professional appearances, and the lines have been widely accepted by the serious amateur who is anxious for an instrument of superior quality.

As the only new acoustic guitar design in 400 years, Ovation instruments have captured the imagination of an important musical audience. A distinctive feature is the nearly indestructible rounded back of "Lyrachord". The roundback design produces a superb tonal quality unmatched by guitars of conventional flatback, flatside design.

To our surprise and satisfaction, a marketing study of Ovation instrument purchasers shows that our buyers are largely in their late 20's, indicating that our instruments are purchased by a more mature, demanding, affluent group than teen-age buyers. Initial returns from sale of Ovation's "Electric Storm" electric guitars indicate acceptance by the younger set, giving Kaman a sales base in both age groups.

The electronic expertise of Kaman Instruments was employed to design and build for Ovation Instruments three lines of electronic amplifiers and public address systems, supplementary to the "Electric Storm" guitars.

Kaman has attained this success with quality instruments in the high priced field. Ovation acoustic guitars are priced from \$200 to \$380, Storm electrics from \$300 to \$450, and amplifiers from \$725 to \$1,050. In addition, Ovation sells guitar cases and other accessories.

Two subsidiaries, Coast Wholesale Music Companies of Los Angeles and San Francisco, joined the growing Kaman family as the year ended. Together, they represent two of the major distributorships of musical instruments serving music stores throughout the American west, including Alaska and Hawaii among the 11 states covered.

They bring Kaman's Music Group an excellent sales, earning and growth record, as well as marketing know-how important to future activities in the entertainment market. A complete line of all classical and popular musical instruments and accessories is distributed by our latest acquisitions.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS-December 31, 1967

This pro forma presentation assumes the issuance of the Preferred Series 1 stock and the acquisition of Coast Wholesale Music Companies of Los Angeles and San Francisco, Inc., and AirKaman of Omaha, Inc. at the beginning of the Fiscal Year. Results of the California companies' operations, both going concerns, are reflected in the statements. No estimate of sales or earnings is included for AirKaman of Omaha, Inc.

	Unadjusted	Pro Forma
Sales	$65,400,682	$70,382,898
Net income after taxes	1,437,134	1,641,216
Earnings per share	$ 2.39	$ 2.59

Assets:

	Unadjusted	Pro Forma
Current assets	$37,897,019	$40,454,362
Net property, plant, equipment, other assets	5,704,130	7,215,366
Total assets	$43,601,149	$47,669,728

Liabilities and stockholders' equity:

	Unadjusted	Pro Forma
Current liabilities	$21,889,475	$22,462,365
Long-term debt	9,001,392	9,001,392
Stockholders' equity	12,710,282	16,205,971
Total liabilities and stockholders' equity	$43,601,149	$47,669,728

TEN YEAR SUMMARY

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Sales	$ 65,400,682	45,981,871	51,292,959	56,828,343	64,397,775	75,279,500	59,744,617	54,524,032	34,747,453	21,422,642
Income Before Taxes	2,815,813	2,142,737	2,043,308	1,547,308	(2,645,642)	2,064,190	2,250,479	1,662,777	1,282,926	1,057,012
Net Income	1,437,134	1,205,343	1,071,917	948,829	(1,446,591)	802,490	925,087	718,777	589,926	513,012
Per Share (1)	2.34	2.12	1.90	1.69	(2.61)	1.45	1.70	1.41	1.26	1.12
Per Share (2)	2.39	2.13	1.91	1.70	(2.61)	1.46	1.74	1.44	1.28	1.17
Stockholders	4,617	4,875	4,511	4,713	4,546	4,476	4,360	4,256	4,014	3,668
Working Capital	16,007,544	8,131,477	7,628,809	6,792,940	5,910,054	7,393,581	7,437,564	4,864,571	3,717,147	2,320,133
Plant & Equipment At Cost	8,167,887	7,029,552	6,593,970	6,251,112	5,874,503	5,462,770	4,250,210	3,194,067	2,368,373	1,600,230
Total Assets	43,601,149	28,454,982	27,679,110	30,884,903	31,924,078	35,368,284	29,189,644	25,616,433	17,943,493	11,960,728
Stockholders' Equity	12,710,282	9,370,406	8,107,154	7,036,481	6,114,741	7,551,783	6,594,115	5,264,996	3,928,179	3,268,412
Per Share (1)	20.66	16.48	14.38	12.55	11.02	13.63	12.13	10.31	8.38	7.16
Shares Outstanding (1)	615,228	568,763	563,949	560,596	554,970	553,914	543,500	510,777	468,991	456,263
Employees	3,562	2,667	2,382	2,732	3,513	4,786	4,583	4,192	3,029	2,058

( ) indicates loss.

(1) Adjusted to reflect cumulative effect of stock dividends (including 3% stock dividend declared in December 1967 and issued in January 1968) based on **actual** shares outstanding each year.

(2) Adjusted to reflect cumulative effect of stock dividends (including 3% stock dividend declared in December 1967 and issued in January 1968) based on **average** number of shares outstanding each year.

KAMAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET—December 31, 1967
with comparative figures at January 1, 1967

Assets	1967	1966
Current assets:		
Cash	$ 716,617	$ 703,135
Accounts receivable (note 2):		
U. S. Government contracts:		
Prime contracts	12,510,092	9,085,682
Accrued profit (note 3)	603,207	245,008
Subcontracts	7,426,745	1,829,389
Accrued profit (note 3)	368,823	—
Other contracts	2,884,567	922,456
Other receivables	406,566	414,658
Total accounts receivable	24,200,000	12,497,193
Inventories (notes 2 and 4)	12,736,091	11,383,819
Prepayments	244,311	167,556
Total current assets	37,897,019	24,751,703
Property, plant and equipment, at cost (note 5)	8,167,887	7,029,552
Less accumulated depreciation	4,486,582	4,052,321
Net property, plant and equipment	3,681,305	2,977,231
Other assets (notes 6 and 12)	2,022,825	726,048
	$43,601,149	$28,454,982

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	1967	1966
Current liabilities:		
Notes payable—bank (note 2)	$12,931,350	$ 9,414,172
Current portion of long-term notes (note 7)	256,957	345,201
Accounts payable—trade	5,439,802	3,432,803
Accrued payables	2,778,990	2,120,914
Reserve for bond redemption (note 7)	—	125,000
Reserve for contract redetermination (note 8)	124,464	267,451
Federal income taxes (note 9)	357,912	914,685
Total current liabilities	21,889,475	16,620,226
Long-term notes payable (note 7)	3,096,392	1,948,350
Convertible subordinated debentures (note 7):		
6%, due January 1, 1974	—	516,000
4¾%, due July 1, 1987	5,905,000	—
Stockholders' equity:		
Capital stock, $1 par value per share (notes 10, 13, and 14):		
Preferred, authorized 1,000,000 shares (none at January 1, 1967); issued none	—	—
Class A common, authorized 1,810,000 shares (810,000 shares at January 1, 1967); nonvoting; $.10 per share dividend preferential; issued 548,277 shares (447,897 shares at January 1, 1967)	548,277	447,897
Class B common, authorized 200,000 shares (100,000 shares at January 1, 1967); voting; issued 49,032 shares (88,218 shares at January 1, 1967)	49,032	88,218
Capital surplus (notes 11 and 12)	6,409,701	4,185,617
Retained earnings (notes 2, 11, and 12):		
Reserve for common stock dividend declared	746,627	—
Unreserved	4,956,645	4,648,674
	5,703,272	4,648,674
Total stockholders' equity	12,710,282	9,370,406
Commitments and contingent liabilities (notes 5 and 14)		
	$43,601,149	$28,454,982

KAMAN
CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

Fiscal year ended December 31, 1967
with comparative figures for 1966

	1967	1966
Sales (note 3)	$65,400,682	$45,981,871
Cost of sales (note 4)	53,448,201	36,277,653
	11,952,481	9,704,218
General and administrative expense	7,979,553	6,561,707
	3,972,928	3,142,511
Interest on notes and mortgages:		
Long-term debt	315,728	191,134
Other	841,387	678,775
	1,157,115	869,909
Earnings before provision for taxes on income	2,815,813	2,272,602
Provision for taxes on income:		
Federal	1,232,982	929,229
State	145,697	138,030
	1,378,679	1,067,259
Net earnings	$ 1,437,134	1,205,343
Per share:		
Net earnings (a)	$ 2.39	$ 2.13
Pro forma net earnings (b)	$ 2.08	$ 2.04

(a) Based on weighted average number of shares of Class A and Class B common stock outstanding adjusted for the cumulative effect of stock dividends declared.

(b) The same basis is utilized in these pro forma calculations as described in (a) above and with the further assumption that all the warrants and stock options outstanding on December 31, 1967 were converted into 37,586 shares of Class A common stock at the beginning of the two fiscal years ended December 31, 1967 and the 4¾% convertible subordinated debentures outstanding on December 31, 1967 were converted to 202,782 shares of Class A common stock at their issue date, July 1, 1967, with appropriate adjustment of interest expense (net of taxes on income).

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Fiscal year ended December 31, 1967
with comparative figures for 1966

	1967	1966
Balance at beginning of fiscal year (as previously reported)	$ 4,648,674	$ 3,443,331
Deduct prior period adjustment (note 12)	125,200	125,200
Balance, as adjusted	4,523,474	3,318,131
Net earnings	1,437,134	1,205,343
	5,960,608	4,523,474
Deduct fair market value of Class A common stock issued for 3% stock dividend on record date, January 31, 1967	257,336	—
Balance at end of fiscal year (notes 2, 11, and 12)	$ 5,703,272	$ 4,523,474

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

Fiscal year ended December 31, 1967
with comparative figures for 1966

	1967	1966
Balance at beginning of fiscal year (as previously reported)	$ 4,185,617	$ 4,132,246
Add prior period adjustment (note 12)	110,200	110,200
Balance as adjusted	4,295,817	4,242,446
Add:		
Excess of market price over par value of Class A common stock issued on 3% stock dividend	241,260	—
Excess of conversion price over par value of Class A common stock issued at conversion of 6% subordinated convertible debentures	586,713	27,358
Excess of option price over par value of Class A common stock issued at exercise of options	46,664	26,013
Excess of conversion price over par value of Class A common stock issued at conversion of 4¾% subordinated convertible debentures	91,774	—
Valuation of conversion feature attributable to the 4¾% subordinated convertible debentures	1,180,780	—
	6,443,008	4,295,817
Less unamortized bond discount and expense on 6% convertible subordinated debentures converted to Class A common stock	33,307	—
Balance at end of fiscal year (notes 11 and 12)	$ 6,409,701	$ 4,295,817

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS: December 31, 1967

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the parent corporation and its subsidiaries which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Assets Assigned or Pledged

Substantially all receivables are assigned to the Hartford National Bank and Trust Company under a Regulation "V" Loan Agreement which provides a maximum credit of $12,500,000 on December 31, 1967 and continuing to December 31, 1968.

The "V" Loan Agreement, as amended, provides, among other covenants, that the corporation will not declare cash dividends on or purchase shares of its capital stock and will maintain its net working capital in an amount at least equal to $7,500,000 at December 31, 1967 and $10,000,000 from February 14, 1968 continuing till December 31, 1968.

In addition, the corporation has assigned ordinary life insurance policies on the life of Mr. Charles H. Kaman, in the aggregate face amount of $100,000, as security under the loan agreement.

Inventory and receivables with a book value of $893,399 owned by a wholly owned subsidiary are pledged to secure bank loans under conditional sales contracts.

(3) Sales

A substantial portion of the sales were under fixed price and fixed price incentive-type contracts. Profits which can reasonably be anticipated under these contracts are recorded concurrently with costs incurred thereon.

Reimbursable costs under cost-type contracts along with applicable fees thereon are also included.

(4) Inventories

Inventories are comprised as follows:

	1967	1966
Contracts in process:		
U. S. Government	$ 5,103,528	$ 5,306,635
Other	3,005,105	2,752,969
Other work in process (including certain general stock material and parts)	1,738,273	1,503,751
Aircraft for resale	428,231	510,611
Used in determination of cost of sales	10,275,137	10,073,966
Direct charges to be allocated	2,181,258	1,292,577
General stock material and parts	279,696	17,276
	$12,736,091	$11,383,819

Inventory costs accumulated against contracts and work in process represent material and labor at actual cost and overhead applicable thereto. Direct charges to be allocated are stated at cost.

General stock materials, parts, and aircraft for resale are stated at cost or market, whichever is lower. General stock materials and parts are valued on a first-in, first-out basis. Aircraft for resale are valued on a specific unit basis.

(5) Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

	1967	1966
Land	$ 422,536	$ 422,536
Land improvements	242,058	242,058
Building and building improvements	3,954,064	3,488,923
Leasehold improvements	422,342	305,357
Machinery and equipment	2,704,003	2,150,975
Office furniture and equipment	422,884	419,703
	8,167,887	7,029,552
Less accumulated depreciation	4,486,582	4,052,321
	$3,681,305	$2,977,231

Depreciation expense for the fiscal year ended December 31, 1967 was $450,461 ($469,455 for the fiscal year ended January 1, 1967). Capital assets with an approximate cost of $5,425,000 are being depreciated on the sum of the years digits method, whereas the balance with an approximate cost of $2,325,000 is being depreciated on the straight line method.

Long-term rent commitments under various leases for plant and equipment require payments of approximately $970,000 during the ensuing year.

(6) Other Assets

Other assets consist of:

	1967	1966
Deferred debt discount attributable to the conversion feature of the 4¾% Convertible Subordinated Debentures	$1,179,093	—
Accounts receivable not currently due (notes 2 and 7)	289,626	351,416
Cash value of life insurance (note 2)	24,000	19,300
Deferred compensation	—	7,500
Patents	122,969	124,092
Deferred charges	407,137	112,878
Research and development	—	110,862
	$2,022,825	$ 726,048

The above assets are stated at realizable values or cost less applicable amortization.

(7) Long-Term Debt

Long-term notes are comprised as follows: (See table below.)

The 8% note is secured by accounts receivable of a wholly owned subsidiary (AirKaman, Incorporated) and requires monthly payments including interest of $9,553.

The 6% senior promissory note, due August 1, 1973, was refunded through an institutional investor with the issuance of the existing 6% senior note, due August 1, 1980. The new note will require annual payments of principal in the amount of $180,000 commencing August 1, 1970.

The 6% senior note, due August 1, 1980, provides, among other covenants, that the corporation will not declare cash dividends on or purchase shares of its capital stock in an amount to exceed 70% of its consolidated net earnings and will maintain its consolidated working capital at least the greater of $7,500,000 or 100% of consolidated funded debt.

On May 1, 1967, all the outstanding 6% Convertible Subordinated Debentures were converted into shares of Class A common stock, except for debentures in the principal amount of $17,000 for which the corporation made a deposit, plus interest to May 1, 1967, with the trustee.

The trust indenture of the 4¾% Convertible Subordinated Debentures requires annual payments of $600,000 to a sinking fund commencing at least one business day prior to July 1, 1978.

(8) Renegotiation

A substantial portion of the company's sales is subject to renegotiation. The Renegotiation Board has cleared all periods through the year 1966 without refund, and no refund is anticipated for the current period.

(9) Federal Income Taxes

Federal income tax returns of the parent company and its wholly owned operating subsidiary have been examined by the Internal Revenue Service through the year 1965.

(10) Capital Stock Options and Purchase Agreements

Existing capital stock options and purchase agreements, adjusted to give effect to the 3% stock dividend declared on December 19, 1967, are as follows:

(a) There are 19,948 shares of Class A stock held in trust for the benefit of Mr. Charles H. Kaman, President. The stock was issued for the execution of an employment contract and for the release of certain patent rights.

(b) Restricted stock options to purchase 14,028 shares of Class A stock at 95% of market value at date of granting have been granted to key employees. These restricted options are in effect for a period of ten years from the date of granting and are exercisable.

(c) Qualified stock options to purchase 28,167 shares of Class A stock at market value at date of granting have been granted to key employees on various dates. These qualified options are in effect for a period of five years from the date of granting. Qualified options on 11,575 shares are exercisable.

(d) The 6% senior promissory note referred to in note 7 which was refunded during the year has purchase warrants attached which are still in effect, entitling the holder to purchase 11,983 shares of Class A common stock at a pro forma price per share. The price per share, as computed by formula, is $28.375 per share.

(e) The 4¾% convertible subordinated debentures referred to in note 7 are convertible at each holder's option into Class A common stock at any time prior to maturity at the prevailing conversion rate. The conversion rate, as set forth in the trust indenture, is computed to be $29.12 per share.

	1967		1966	
	Current	Long-term	Current	Long-term
Mortgage notes payable:				
Kaman Corporation:				
5¾%, due June 24, 1970	$ 70,000	$ 122,500	$ 70,000	$ 192,500
6¼%, due August 1, 1977	45,784	529,309	38,144	332,532
AirKaman, Incorporated:				
5¾%, due November 30, 1972	26,537	119,781	25,057	146,318
8% secured note, due October 8, 1971	114,636	324,802	—	—
6% senior promissory note, due August 1, 1973	—	—	212,000	1,277,000
6% senior note, due August 1, 1980	—	2,000,000	—	—
	$ 256,957	$3,096,392	$ 345,201	$1,948,350

(11) Stock Dividends Declared

The Board of Directors at a special meeting on January 16, 1967 declared a stock dividend of 3% on the Class A and Class B common stock of the corporation, payable in shares of Class A common stock on February 15, 1967 to stockholders of record at the close of business on January 31, 1967.

The Board of Directors on December 19, 1967 also declared a like 3% stock dividend, payable on January 31, 1968 to stockholders of record at the close of business on January 2, 1968.

(12) Prior Years' Adjustment

In order to conform the corporation's annual report to the requirements of the Securities and Exchange Commission, the corporation, during the fiscal year ended December 31, 1967, has made such adjustments as necessary in its annual report to stockholders. Such adjustment represents the excess of market value of common stock, issued at the early stage of the corporation's development, over issue price and restores an amount of $110,200 to Capital Surplus, reduces prior year deferred charges by $15,000 and reduces retained earnings by $125,200.

(13) Change in Authorized Capital Stock

On March 31, 1967 the holders of the Class B common stock approved, and on May 26, 1967 the holders of the Class A common stock approved, an amendment to the restated Certificate of Incorporation recommended by the Board of Directors authorizing 1,000,000 shares of a class of preferred stock of the par value of $1 per share and increasing the amount of authorized Class A common stock from 810,000 shares to 1,810,000 shares and the Class B common stock from 100,000 shares to 200,000 shares. The preferred stock has preference over Class A and Class B common stock with respect to the payment of dividends and the Board of Directors may fix other preferences. The preferred stock upon issuance would be entitled to vote only for the election of directors, with each share being entitled to one vote thereon. The number of directors which may be elected by the preferred stockholders would be limited and, depending on the number of shares of preferred stock outstanding, would range from a minimum of one director to a maximum of 40% of the total number of directorships of the corporation then fixed.

During the year the Board of Directors authorized an exchange offer of Class A common stock for Class B common stock, and as a result 39,186 shares of Class B common stock were exchanged for a like number of shares of Class A common stock.

On December 19, 1967 the Board of Directors created a series of the preferred stock consisting of 200,000 shares designated as "Series 1 Preferred Stock, par value $1." The Series 1 Preferred Stock has the preferences and voting rights as mentioned above and in addition shall be entitled to receive cumulative dividends in the amount of $1 per share annually on the issue date of such shares and shall be convertible from the date of issuance, at the option of the holders of Series 1 stock, into shares of Class A common stock initially at the rate of one share of Class A common stock for each one share of Series 1 stock.

(14) Events Subsequent to Balance Sheet Date

On January 18, 1968 the corporation issued 85,000 shares of Series 1 preferred stock for 100% of the outstanding capital stock of two corporations, Coast Wholesale Music Co. of San Francisco and Coast Wholesale Music Co. of Los Angeles, both California corporations. Fair market value of the Series 1 preferred stock issued was $32 per share, resulting in a total investment of $2,720,000.

On January 24, 1968 the corporation issued 10,940 shares of Series 1 preferred stock at $32 per share. The proceeds of such issue along with the additional issuance of 7,550 shares of Series 1 preferred stock were used to acquire certain assets of Duncan Aviation, Inc., a Missouri corporation, and Duncan Beechcraft, Inc., a Nebraska corporation. Fair market value of the 7,550 shares of Series 1 preferred stock issued was $32 per share, resulting in a total investment, after certain closing adjustments, of $591,607. Such amount paid for the assets acquired constitutes the parent corporation's investment in a new 100% owned subsidiary formed, AirKaman of Omaha, Inc., a Nebraska corporation.

THE BOARD OF DIRECTORS
KAMAN CORPORATION:

We have examined the consolidated balance sheet of the Kaman Corporation and its subsidiaries as of December 31, 1967 and the related consolidated statements of earnings, retained earnings, and capital surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practical to confirm receivables from the United States Government, but we satisfied ourselves as to their substantial accuracy by other means.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings, and capital surplus present fairly the financial position of the Kaman Corporation and its subsidiaries at December 31, 1967 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HARTFORD, CONNECTICUT
FEBRUARY 19, 1968

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

DIRECTORS — March 1968

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President—University of Connecticut

STEWART A. BLISS
Vice President—Corporate Development, Kaman Corporation

BRUCE F. CLARK
Vice President—Finance, Kaman Corporation

KENNETH W. ERICKSON
Vice President & General Manager—Kaman Nuclear Division

MILTON H. GLOVER

CHARLES H. KAMAN
President—Kaman Corporation

CHARLES E. LORD
President—Hartford National Bank and Trust Company

JOHN S. MURTHA
Partner—Murtha, Cullina, Richter and Pinney

ALFRED M. PRIDE
Admiral—U.S. Navy (ret.)

OFFICERS

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President—Kaman Corporation

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Vice President—Corporate Development, Kaman Corporation

BRUCE F. CLARK
Vice President—Finance, Kaman Corporation

JOHN S. MURTHA
Secretary—Kaman Corporation

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Vice President—Helicopter Sales, Kaman Aircraft

W. NORMAN STONE
Vice President—Engineering, Kaman Aircraft

COUNSEL

MURTHA, CULLINA, RICHTER AND PINNEY—97 Elm Street, Hartford, Conn.

TRANSFER AGENT

HARTFORD NATIONAL BANK AND TRUST CO.—777 Main Street, Hartford, Conn.

AUDITOR

PEAT, MARWICK, MITCHELL & COMPANY—100 Constitution Plaza, Hartford, Conn.