

News From:

For Immediate Release



**Kaydon Corporation**

**Global Engineered Solutions**

## **KAYDON CORPORATION REPORTS THIRD QUARTER RESULTS**

Ann Arbor, Michigan – October 29, 2007

Kaydon Corporation (NYSE:KDN) today announced its results for the third quarter ended September 29, 2007.

- **Order entry was a third-quarter record \$117.3 million, resulting in record quarter-end backlog of \$211.4 million.**
- **Sales were a third-quarter record \$107.4 million, versus \$99.7 million during last year's third quarter.**
- **Operating income, including \$1.0 million of relocation and expansion costs, equaled \$24.5 million compared to \$24.9 million.**
- **Net income equaled \$17.1 million compared to \$17.6 million.**
- **Diluted earnings per share was \$.54, versus \$.55 last year.**
- **Share repurchases in third quarter total \$15.4 million, as strong cash flow supports capital allocation initiatives and financial flexibility.**

Third quarter sales increased 7.7 percent to a third-quarter record \$107.4 million. Operating income and diluted earnings per share of \$.54 declined slightly compared to last year's strong third quarter. Third quarter 2007 operating income included expenses totaling approximately \$1.0 million related to the Company's wind energy expansion ramp up and the relocation of a portion of its Sealing Products business. The prior third quarter benefited from \$0.8 million in one-time operating income benefits and a one-time tax benefit totaling \$0.5 million. Order entry during the quarter of \$117.3 million was a third-quarter record, resulting in record quarter-end backlog of \$211.4 million, reflecting strength in most of Kaydon's key end-markets.

James O'Leary, President and Chief Executive Officer commented, "We are pleased with the strong sales and orders achieved during the third quarter. Our net income and earnings per share were strong as compared to an outstanding performance in the prior third quarter. Our order intake was a third-quarter record and the resultant record \$211.4 million backlog provides positive momentum through the fourth quarter and in to 2008. As also announced today, the addition of Avon Bearings to our market-leading bearings business broadens our strategic position in a number of markets while adding immediate capacity to our growing wind energy platform."

## Third Quarter 2007 Results

Sales during the third quarter of 2007 equaled a record \$107.4 million, a 7.7 percent increase compared to \$99.7 million during a strong third quarter of 2006. All of the Company's reporting segments experienced higher sales volumes. Gross profit equaled \$43.3 million or 40.3 percent of sales for the third quarter of 2007 as compared to \$40.9 million or 41.0 percent of sales for the third quarter of 2006. Third quarter gross profit included expenses totaling approximately \$0.6 million related to the ramp up of our wind energy expansion and to the relocation of a portion of our Sealing Products business. As compared to the current period, the third quarter of 2006 benefited from an exceptionally strong performance in our military business.

Selling, general, and administrative expenses, including expenses totaling approximately \$0.3 million related to the wind energy expansion, equaled \$18.8 million or 17.5 percent of sales during the third quarter of 2007 as compared to \$16.0 million or 16.1 percent of sales during the third quarter of 2006. SG&A expenses during the third quarter 2006 were favorably impacted by an insurance refund and by a reduction of environmental reserves, totaling approximately \$0.8 million.

Operating income decreased to \$24.5 million, in the third quarter of 2007, equal to 22.8 percent of sales, compared to \$24.9 million, or 25.0 percent of sales, in the third quarter of 2006.

Interest income increased to \$4.8 million during the third quarter of 2007, compared with \$4.4 million during the third quarter of 2006, due to higher average rates earned on higher average cash and short-term investment balances.

The effective tax rate during the third quarter of 2007 was 36.1 percent, which is expected to carry through the remainder of 2007. The effective tax rate during the third quarter of 2006 was 34.6 percent primarily as the result of a \$0.5 million tax benefit related to the Company's disposition of an idle facility.

Net income for the third quarter of 2007 was \$17.1 million or \$.54 per share on a diluted basis, based on 34.7 million common shares outstanding. During the third quarter of 2006 Kaydon generated net income of \$17.6 million or \$.55 per share on a diluted basis, based on 34.8 million common shares outstanding.

Order entry during the third quarter of 2007 increased 25.9 percent compared to 2006, and equaled a record \$117.3 million. Total orders booked in last year's third quarter equaled \$93.2 million. Orders are historically lower during the third quarter of each year due to seasonal business patterns. Backlog equaled \$211.4 million at the end of the third quarter 2007, a 36.4 percent increase compared to a backlog of \$155.0 million at the end of the third quarter 2006.

Net cash flow from operating activities during the third quarter 2007 equaled \$10.1 million compared to third quarter 2006 cash flow from operations of \$17.5 million. The decline was largely due to the Company's contribution of \$23.2 million to its previously

underfunded pension plans during the quarter. This contribution should substantially eliminate future contributions, and should be modestly accretive.

Free cash flow, as defined by the Company and a non-GAAP liquidity measure, was a negative \$6.7 million during the third quarter 2007, as compared to positive free cash flow of \$9.6 million during 2006. Capital expenditures were \$16.8 million during this year's third quarter, or \$9.0 million higher than the third quarter last year, as we continued our investment in capacity expansion, particularly wind energy. Free cash flow for the last twelve months ended September 29, 2007 totaled \$34.0 million, as compared to \$44.3 million in the prior year's comparable period. Readers should refer to the attached *Reconciliation of Non-GAAP Measures* exhibit for the calculation of free cash flow and the reconciliation of free cash flow to the most comparable GAAP measure.

EBITDA, as defined by the Company and a non-GAAP liquidity measure, equaled \$29.3 million, or 27.3 percent of sales, during the third quarter 2007, as compared to \$29.1 million, or 29.1 percent of sales, during the third quarter 2006. Readers should refer to the attached *Reconciliation of Non-GAAP Measures* exhibit for the calculation of EBITDA and the reconciliation of EBITDA to the most comparable GAAP measure.

### **Capital Allocation Initiatives**

During the third quarter 2007, the Company paid common stock dividends of \$3.4 million, and repurchased 295,800 shares of Company common stock for \$15.4 million. Year-to-date share repurchases total 455,000 shares for \$22.6 million. The Company's ability to generate high cash flow in excess of required capital investment, and its strong balance sheet, enable the Company to prudently return capital to its shareholders through opportunistic share repurchases and periodically increased dividends.

### **Year to date 2007 Results**

Sales during the first three quarters of 2007 increased \$23.8 million, or 7.8 percent, to \$327.7 million compared with the first three quarters of 2006. Year to date operating income increased \$4.4 million, or 5.9 percent, to \$79.1 million. For the first three quarters net income and diluted earnings per share were up 6.1 percent and 5.6 percent, respectively, compared with the same period of 2006.

### **Segment Discussion**

During the third quarter of 2007, sales of the Friction Control Products segment increased \$2.5 million or 4.3 percent, to \$60.0 million, when compared with third quarter 2006. Sales of split roller bearings and sales to the machinery, wind energy, and medical markets improved, while sales to the military, non-wind heavy equipment, and semiconductor markets were lower than the prior third quarter. Third quarter 2007 operating income decreased 11.3 percent, to \$15.0 million, impacted by the product mix shifts including the continued strong growth in the lower, but still high, margin split roller

bearings business, the ramp up costs of our wind energy program, and the absence of a \$0.5 million insurance refund recorded in third quarter 2006. As compared to the current period, the third quarter of 2006 benefited from an exceptionally strong performance in our military business.

Third quarter 2007 sales of the Velocity Control Products segment, of \$16.5 million, increased 13.1 percent over the prior third quarter with strong sales by both our U.S. and German operations. Operating income of \$4.5 million increased 28.8 percent over third quarter 2006, primarily as the result of higher sales and resultant operating leverage.

Sales of the Sealing Products segment increased 16.4 percent, to \$12.0 million, compared with last year's third quarter sales of \$10.3 million. Operating income grew 32.0 percent to \$2.2 million, driven by higher sales.

Sales of the Company's remaining businesses equaled \$18.8 million during the third quarter of 2007, an increase from third quarter 2006 of \$1.6 million or 9.3 percent. Sales growth was achieved in each of our remaining businesses. Operating income increased due to higher sales volume particularly in our liquid and air filtration businesses, and from the benefits of a plant consolidation at our liquid filtration business completed last year.

## **About Kaydon**

Kaydon Corporation is a leading designer and manufacturer of custom-engineered, performance-critical products, supplying a broad and diverse group of industrial, aerospace, medical and electronic equipment, alternative-energy, and aftermarket customers.

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Conference call information: At 11:00 a.m. Eastern time today, Kaydon will host a third quarter 2007 earnings conference call. The conference call can be accessed telephonically in a listen-only mode by dialing 1-877-723-9502 and providing the following passcode number: 800500. Participants are asked to dial in 10 minutes prior to the scheduled start time of the call.

Alternatively, interested parties are invited to listen to the conference call on the Internet at: <http://www.vcall.com/IC/CEPage.asp?ID=121510> or by logging on to the Kaydon Corporation website at: <http://www.kaydon.com> and accessing the conference call at the "Third Quarter 2007 Conference Call" icon.

To accommodate those that are unable to listen at the scheduled start time, a replay of the conference call will be available telephonically beginning at 1:30 p.m. Eastern time today through Monday, November 5, 2007 at 11:59 p.m. Eastern time. The replay is accessible by dialing 1-888-203-1112 and providing the following passcode number: 4255633.

Additionally, interested parties can access an archive of the conference call on the Kaydon Corporation website at <http://www.kaydon.com>.

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This press release contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 regarding the Company's plans, expectations, estimates and beliefs. Forward-looking statements are typically identified by words such as "believes," "anticipates," "estimates," "expects," "intends," "will," "may," "could," "potential," "projects," "approximately," and other similar expressions, including statements regarding pending litigation, general economic conditions, competitive dynamics and the adequacy of capital resources. These forward-looking statements may include, among other things, projections of the Company's financial performance, anticipated growth, characterization of and the Company's ability to control contingent liabilities, and anticipated trends in the Company's businesses. These statements are only predictions, based on the Company's current expectation about future events. Although the Company believes the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, performance or achievements or that predictions or current expectations will be accurate. These forward-looking statements involve risks and uncertainties that could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements.

In addition, the Company or persons acting on its behalf may from time to time publish or communicate other items that could also be construed to be forward-looking statements. Statements of this sort are or will be based on the Company's estimates, assumptions, and projections and are subject to risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. Kaydon does not undertake any responsibility to update its forward-looking statements or risk factors to reflect future events or circumstances.

Certain non-GAAP liquidity measures are presented in this press release. These measures should be viewed as supplemental data, rather than as substitutes or alternatives to the most comparable GAAP measures.

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<http://www.kaydon.com>

KAYDON CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

|   | Third Quarter Ended   |                       | First Three Quarters Ended |                       |
|---|-----------------------|-----------------------|----------------------------|-----------------------|
|   | September 29,<br>2007 | September 30,<br>2006 | September 29,<br>2007      | September 30,<br>2006 |
| Net sales                                     | \$ 107,365,000        | \$ 99,676,000         | \$ 327,653,000             | \$ 303,845,000        |
| Cost of sales                                 | 64,069,000            | 58,795,000            | 191,551,000                | 177,824,000           |
| Gross profit                                  | 43,296,000            | 40,881,000            | 136,102,000                | 126,021,000           |
| Selling, general, and administrative expenses | 18,840,000            | 16,011,000            | 57,006,000                 | 51,356,000            |
| Operating income                              | 24,456,000            | 24,870,000            | 79,096,000                 | 74,665,000            |
| Interest expense                              | (2,390,000)           | (2,390,000)           | (7,142,000)                | (7,189,000)           |
| Interest income                               | 4,752,000             | 4,363,000             | 14,133,000                 | 11,686,000            |
| Income before income taxes                    | 26,818,000            | 26,843,000            | 86,087,000                 | 79,162,000            |
| Provision for income taxes                    | 9,681,000             | 9,285,000             | 31,077,000                 | 27,311,000            |
| Net income                                    | \$ 17,137,000         | \$ 17,558,000         | \$ 55,010,000              | \$ 51,851,000         |
| Weighted average common shares outstanding    |                       |                       |                            |                       |
| Basic   | 27,659,000            | 27,819,000            | 27,789,000                 | 27,833,000            |
| Diluted                                       | 34,655,000            | 34,758,000            | 34,786,000                 | 34,770,000            |
| Earnings per share                            |                       |                       |                            |                       |
| Basic   | \$0.62                | \$0.63                | \$1.98                     | \$1.86                |
| Diluted                                       | \$0.54                | \$0.55                | \$1.71                     | \$1.62                |
| Dividends declared per share                  | \$0.15                | \$0.12                | \$0.39                     | \$0.36                |

KAYDON CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION

|  | September 29,<br>2007        | December 31,<br>2006         |
|--|------------------------------|------------------------------|
| <b>Assets:</b>                               |                              |                              |
| Cash and cash equivalents                    | \$ 260,349,000               | \$ 370,789,000               |
| Short-term investments                       | 90,000,000                   | -                            |
| Accounts receivable, net                     | 59,941,000                   | 54,066,000                   |
| Inventories, net                             | 66,744,000                   | 56,043,000                   |
| Other current assets                         | <u>13,292,000</u>            | <u>17,012,000</u>            |
| Total current assets                         | 490,326,000                  | 497,910,000                  |
| Property, plant and equipment, net           | 124,041,000                  | 95,280,000                   |
| Goodwill, net                                | 120,209,000                  | 119,484,000                  |
| Other intangible assets, net                 | 19,066,000                   | 21,271,000                   |
| Other assets                                 | <u>2,320,000</u>             | <u>3,611,000</u>             |
| Total assets                                 | <u><u>\$ 755,962,000</u></u> | <u><u>\$ 737,556,000</u></u> |
| <b>Liabilities and Shareholders' Equity:</b> |                              |                              |
| Accounts payable                             | \$ 23,530,000                | \$ 23,044,000                |
| Accrued expenses                             | <u>31,258,000</u>            | <u>28,588,000</u>            |
| Total current liabilities                    | 54,788,000                   | 51,632,000                   |
| Long-term debt                               | 200,000,000                  | 200,000,000                  |
| Long-term liabilities                        | <u>38,034,000</u>            | <u>52,744,000</u>            |
| Total long-term liabilities                  | 238,034,000                  | 252,744,000                  |
| Shareholders' equity                         | <u>463,140,000</u>           | <u>433,180,000</u>           |
| Total liabilities and shareholders' equity   | <u><u>\$ 755,962,000</u></u> | <u><u>\$ 737,556,000</u></u> |

**KAYDON CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

|   | Third Quarter Ended   |                       | First Three Quarters Ended |                       |
|---|-----------------------|-----------------------|----------------------------|-----------------------|
|   | September 29,<br>2007 | September 30,<br>2006 | September 29,<br>2007      | September 30,<br>2006 |
| <b>Cash flows from operating activities:</b>                                  |                       |                       |                            |                       |
| Net income  | \$ 17,137,000         | \$ 17,558,000         | \$ 55,010,000              | \$ 51,851,000         |
| Adjustments to reconcile net income to<br>net cash from operating activities: |                       |                       |                            |                       |
| Depreciation  | 2,807,000             | 2,682,000             | 8,553,000                  | 8,375,000             |
| Amortization of intangible assets   | 758,000               | 770,000               | 2,272,000                  | 2,308,000             |
| Amortization of stock awards  | 1,103,000             | 765,000               | 4,307,000                  | 2,358,000             |
| Stock option compensation expense   | 200,000               | 30,000                | 470,000                    | 246,000               |
| Excess tax benefit from stock-based compensation                              | (75,000)              | (38,000)              | (232,000)                  | (585,000)             |
| Deferred financing fees   | 387,000               | 387,000               | 1,161,000                  | 1,161,000             |
| Net change in receivables, inventories<br>and trade payables                  | 2,937,000             | (2,775,000)           | (15,282,000)               | (12,449,000)          |
| Net change in other assets and liabilities                                    | (15,104,000)          | (1,926,000)           | (8,897,000)                | 2,086,000             |
| <b>Net cash from operating activities</b>                                     | <b>10,150,000</b>     | <b>17,453,000</b>     | <b>47,362,000</b>          | <b>55,351,000</b>     |
| <b>Cash flows used in investing activities:</b>                               |                       |                       |                            |                       |
| Additions to property, plant and equipment, net                               | (16,821,000)          | (7,845,000)           | (37,001,000)               | (15,425,000)          |
| Purchase of available-for-sale securities                                     | (162,606,000)         | -                     | (162,606,000)              | -                     |
| Sales of available-for-sale securities  | 72,606,000            | -                     | 72,606,000                 | -                     |
| <b>Net cash used in investing activities</b>                                  | <b>(106,821,000)</b>  | <b>(7,845,000)</b>    | <b>(127,001,000)</b>       | <b>(15,425,000)</b>   |
| <b>Cash flows from (used in) financing activities:</b>                        |                       |                       |                            |                       |
| Cash dividends paid   | (3,391,000)           | (3,386,000)           | (10,154,000)               | (10,148,000)          |
| Payments on debt  | -                     | (17,000)              | -                          | (49,000)              |
| Excess tax benefit from stock-based compensation                              | 75,000                | 38,000                | 232,000                    | 585,000               |
| Proceeds from exercise of stock options                                       | 24,000                | -                     | 99,000                     | 1,003,000             |
| Purchase of treasury stock  | (15,426,000)          | -                     | (22,612,000)               | (3,404,000)           |
| <b>Net cash used in financing activities</b>                                  | <b>(18,718,000)</b>   | <b>(3,365,000)</b>    | <b>(32,435,000)</b>        | <b>(12,013,000)</b>   |
| <b>Effect of exchange rate changes on cash and<br/>cash equivalents</b>       | <b>1,596,000</b>      | <b>(56,000)</b>       | <b>1,634,000</b>           | <b>808,000</b>        |
| <b>Net increase (decrease) in cash and cash equivalents</b>                   | <b>(113,793,000)</b>  | <b>6,187,000</b>      | <b>(110,440,000)</b>       | <b>28,721,000</b>     |
| <b>Cash and cash equivalents - Beginning of period</b>                        | <b>374,142,000</b>    | <b>343,338,000</b>    | <b>370,789,000</b>         | <b>320,804,000</b>    |
| <b>Cash and cash equivalents - End of period</b>                              | <b>\$ 260,349,000</b> | <b>\$ 349,525,000</b> | <b>\$ 260,349,000</b>      | <b>\$ 349,525,000</b> |



*Kaydon Corporation*  
*Reconciliation of Non-GAAP Measures*  
*(Amounts in Thousands)*

|   | Third Quarter Ended                   |                       | First Three Quarters Ended |                       | LTM                   |                       |
|---|---------------------------------------|-----------------------|----------------------------|-----------------------|-----------------------|-----------------------|
|   | September 29,<br>2007                 | September 30,<br>2006 | September 29,<br>2007      | September 30,<br>2006 | September 29,<br>2007 | September 30,<br>2006 |
|   | Free cash flow, as defined (non-GAAP) |                       |                            |                       |                       |                       |
| Net cash from operating activities (GAAP) | \$ 10,150                             | \$ 17,453             | \$ 47,362                  | \$ 55,351             | \$ 81,871             | \$ 65,455             |
| Capital expenditures                      | (16,821)                              | (7,845)               | (37,001)                   | (15,425)              | (47,870)              | (21,142)              |
| Free cash flow, as defined (non-GAAP)     | <u>\$ (6,671)</u>                     | <u>\$ 9,608</u>       | <u>\$ 10,361</u>           | <u>\$ 39,926</u>      | <u>\$ 34,001</u>      | <u>\$ 44,313</u>      |

Kaydon's management believes free cash flow, as defined above and a non-GAAP liquidity measure, is an important indicator of the Company's ability to generate excess cash above levels required for capital investment to support future growth. However, it should be viewed as supplemental data, rather than as a substitute or alternative to the comparable GAAP measure.

|   | Third Quarter Ended           |                       | First Three Quarters Ended |                       | LTM                   |                       |
|---|-------------------------------|-----------------------|----------------------------|-----------------------|-----------------------|-----------------------|
|   | September 29,<br>2007         | September 30,<br>2006 | September 29,<br>2007      | September 30,<br>2006 | September 29,<br>2007 | September 30,<br>2006 |
|   | EBITDA, as defined (non-GAAP) |                       |                            |                       |                       |                       |
| Cash flow from operating activities (GAAP)                | \$ 10,150                     | \$ 17,453             | \$ 47,362                  | \$ 55,351             | \$ 81,871             | \$ 65,455             |
| Net change in receivables, inventories and trade payables | (2,937)                       | 2,775                 | 15,282                     | 12,449                | 4,092                 | 6,083                 |
| Net change in other assets and liabilities                | 15,104                        | 1,926                 | 8,897                      | (2,086)               | 7,997                 | 13,189                |
| Other, net  | (312)                         | (379)                 | (957)                      | (822)                 | (1,334)               | (1,209)               |
| Net interest (income)/expense                             | (2,362)                       | (1,973)               | (6,991)                    | (4,497)               | (9,193)               | (5,166)               |
| Income tax expense  | 9,681                         | 9,285                 | 31,077                     | 27,311                | 39,637                | 33,105                |
| EBITDA, as defined (non-GAAP)                             | <u>\$ 29,324</u>              | <u>\$ 29,087</u>      | <u>\$ 94,670</u>           | <u>\$ 87,706</u>      | <u>\$ 123,070</u>     | <u>\$ 111,457</u>     |

Kaydon's management believes EBITDA, as defined above and a non-GAAP liquidity measure, is a determinant of the Company's capacity to incur additional senior capital to enhance future profit growth and cash flow growth. In addition, EBITDA is widely used by financial analysts and investors, and is utilized in measuring compliance with financial covenants in the Company's credit agreement. Also, EBITDA is the metric used to determine payments under the Company's annual incentive compensation program for senior managers. However, EBITDA, as defined, should be viewed as supplemental data, rather than as a substitute or alternative to the comparable GAAP measure.