

News From:

For Immediate Release



Kaydon Corporation

Global Engineered Solutions

KAYDON CORPORATION REPORTS FIRST QUARTER RESULTS

ANN ARBOR, Michigan, May 1, 2009, Kaydon Corporation (NYSE:KDN) today announced its results for the first fiscal quarter ended April 4, 2009.

First Quarter Results

Sales in the first fiscal quarter of 2009 were \$110.3 million, compared to \$123.3 million in the first fiscal quarter of 2008. Global recessionary conditions affected each of our businesses. While sales to customers in the strategically important wind energy industry increased 32.9 percent to \$20.8 million in the first fiscal quarter of 2009, this growth was offset by declines in other end markets, principally those serving general industrial customers. Also, during the 2009 quarter, those businesses serving international markets, principally Europe, experienced declines similar to the declines experienced in the Company's North American end markets in the later half of 2008.

Operating income was \$15.5 million in the first fiscal quarter of 2009, compared to \$26.2 million in the first fiscal quarter of 2008. Operating income and margins were adversely impacted by lower volume, increased depreciation, increased pension costs, and adverse changes in product mix, particularly as higher margin industrial orders received and shipped within the same quarter declined within each segment. Non-cash costs associated with higher depreciation and pension expenses increased \$3.0 million in the first fiscal quarter of 2009 as compared to the first fiscal quarter of 2008.

EBITDA, as defined by the Company, equaled \$22.6 million, or 20.5 percent of sales, during the first fiscal quarter of 2009, as compared to \$32.5 million, or 26.4 percent of sales, during the first fiscal quarter of 2008. EBITDA is a non-GAAP measure. 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.

Net income for the first fiscal quarter of 2009 was \$10.1 million or \$.30 per share on a diluted basis. During the first fiscal quarter of 2008, Kaydon generated net income of \$15.3 million or \$.52 per share on a diluted basis. First fiscal quarter 2008 results have been adjusted to reflect the required retrospective application of two Financial Accounting

Standards Board Staff Positions which were effective January 1, 2009 and resulted in the recording of additional non-cash interest expense of \$2.0 million, \$1.3 million net of tax. These required adjustments reduced previously reported first fiscal quarter 2008 basic earnings per share by \$.06 and diluted earnings per share by \$.01.

Management Commentary

James O’Leary, Chairman and Chief Executive Officer commented, “The global recession has impacted each of our businesses to varying degrees. While certain end markets grew during the quarter, such as wind energy, defense and medical, they grew at lower rates than previously anticipated due to the direct or indirect effects of the global economic and financial crises. In the case of the wind energy market, for example, tight credit conditions impacted ultimate end users’ ability to finance new projects, resulting in deferrals or near term cancellation of certain projects previously planned for 2009.

“With respect to the wind energy market, while the near term has been impacted by issues associated with credit and financing availability, recent steps taken to repair the health of the financial markets should eventually improve visibility and end user confidence to proceed with previously planned projects. More importantly for the long term, however, recent actions and policy statements regarding a sustained, committed policy towards increasing renewable energy usage in the United States supports our confidence in this growing market.

“Also during the 2009 first fiscal quarter, dollar strengthening, lower interest income, and higher pension costs negatively impacted reported results as the financial crisis manifested itself in ways that affected even companies with rock solid balance sheets. Depreciation also increased during the first fiscal quarter of 2009 as the Company’s wind energy facility expansion in Mexico was substantially placed into service.

“In late 2008, we preemptively responded to the weakening global economy with actions which will provide benefits in the longer term. We froze salaries, eliminated across the board increases, closed or eliminated a number of benefit programs, curtailed both temporary labor and overtime, and implemented targeted staff cuts. These actions will allow us to take full benefit of the eventual improvement in business conditions.

“Having taken these difficult but necessary steps, our strong balance sheet and leadership positions in fundamentally sound end markets should allow us to emerge from the current period stronger. With unrestricted cash totaling \$220.3 million, \$295.1 million in available credit and no debt outstanding at quarter end, we are exceptionally well positioned for the long term.”

Backlog

Backlog at quarter-end was \$273.3 million compared to \$319.9 million at March 29, 2008 and \$312.6 million at December 31, 2008. Wind backlog was \$137.8 million at the end of the quarter. The 14.6 percent drop in backlog is attributable to shipments in excess of gross new orders, cancellations and deferrals, or “push outs,” in certain longer cycle markets, and to a lesser extent, gross sales price adjustments associated with raw

material price decreases and foreign currency translation. The aggregate impact of cancellations, order deferral outside of the Company's eighteen month window for inclusion in backlog, and other backlog adjustments was \$15.2 million. Backlog is comprised of orders for products expected to be shipped during the next eighteen months.

During the first quarter of 2009, net non-wind orders, including heavy equipment cancellations and, to a lesser extent, foreign currency impact, decreased approximately 39 percent from the preceding year's record level as customers deferred placing orders for immediate shipment, or "book and ship orders," and continued to reduce inventories. Gross non-wind orders, prior to cancellations, deferrals and other backlog adjustments, decreased approximately 33 percent. Within the wind energy business, customers have deferred placing new orders until near term visibility improves. Current shipments continue to be made based on existing purchase orders and longer term agreements.

Segment Review

During the first fiscal quarter of 2009, sales of friction control products totaled \$72.2 million compared to \$74.1 million in the prior first quarter. Sales to the machinery, domestic and international industrial distribution, and semiconductor markets were lower than sales to these markets in the first fiscal quarter of 2008. Declines in sales to these markets more than offset more modest increases in sales to the wind energy, medical and military markets. First quarter 2009 operating income totaled \$12.5 million compared to \$17.6 million in the 2008 first quarter. Operating margins of this segment were affected by adverse changes in product mix, higher depreciation and pension costs, and the unfavorable effects of exchange rate changes.

Sales of velocity control products in the first fiscal quarter of 2009 were \$12.2 million compared to \$18.8 million in the first fiscal quarter of 2008, due to reduced demand in all regions and the adverse effects of exchange rate changes. Operating income in the first quarter of 2009 totaled \$2.2 million compared to \$5.6 million in the first quarter of 2008 due to the effects of the lower sales volume and unfavorable trends in exchange rates.

Sales of sealing products in the first fiscal quarter of 2009 were \$10.6 million compared to \$11.5 million in the first quarter of 2008, as lower volume was only partially offset by higher pricing. Operating income declined to \$0.6 million from \$1.5 million due to lower sales, adverse changes in product mix, and higher pension costs.

Sales of the Company's remaining businesses equaled \$15.4 million during the first fiscal quarter of 2009 compared to \$18.9 million in the 2008 quarter primarily due to lower demand for liquid filtration, air filtration, and metal alloy products. Operating income decreased from \$2.1 million to \$0.8 million in the first fiscal quarter of 2009, due to the lower sales, less favorable product mix, and higher pension costs.

Financial Position and Free Cash Flow

The Company had unrestricted cash totaling \$220.3 million, \$295.1 million in available credit and no debt outstanding as of April 4, 2009. During the first quarter, the

Company paid cash dividends of \$5.8 million and repurchased 314,047 shares of common stock for \$8.9 million.

Free cash flow, a non-GAAP measure defined by the Company as net cash from operating activities less capital expenditures, was \$1.3 million in the first quarter of 2009 compared to a negative \$2.1 million during the first quarter 2008 as capital expenditures declined significantly as the Company substantially completed its wind energy business capacity expansion program.

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.

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.

Conference call information: At 11:00 a.m. Eastern time today, Kaydon will host a first quarter 2009 earnings conference call. The conference call can be accessed telephonically in a listen-only mode by dialing 1-888-576-4393 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://webcast.premiereglobal.com/view/wl/r.htm?e=142757&s=1&k=4E493C4FC84EC2D2368570ED9D7256B8>

or by logging on to the Kaydon Corporation website at: <http://www.kaydon.com> and accessing the conference call at the "First Quarter 2009 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 May 8, 2009 at 11:59 p.m. Eastern time. The replay is accessible by dialing 1-888-203-1112 and providing the following passcode number: 7352764.

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,” “should,” “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 except to the extent required by applicable law.

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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KAYDON CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

| | First Quarter Ended | |
|---|----------------------|--------------------------------------|
| | April 4, 2009 | As adjusted (1) March 29, 2008 |
| Net sales | \$ 110,335,000 | \$ 123,284,000 |
| Cost of sales | <u>74,557,000</u> | <u>75,965,000</u> |
| Gross profit | 35,778,000 | 47,319,000 |
| Selling, general, and administrative expenses | <u>20,258,000</u> | <u>21,155,000</u> |
| Operating income | 15,520,000 | 26,164,000 |
| Interest expense | (62,000) | (4,407,000) |
| Interest income | <u>130,000</u> | <u>1,936,000</u> |
| Income before income taxes | 15,588,000 | 23,693,000 |
| Provision for income taxes | <u>5,464,000</u> | <u>8,374,000</u> |
| Net income | <u>\$ 10,124,000</u> | <u>\$ 15,319,000</u> |
| | | |
| Earnings per share | | |
| Basic | <u>\$0.30</u> | <u>\$0.55</u> |
| Diluted | <u>\$0.30</u> | <u>\$0.52</u> |
| | | |
| Dividends declared per share | <u>\$0.17</u> | <u>\$0.15</u> |

(1) Results for the First Quarter Ended March 29, 2008 have been adjusted, as required, for the retrospective application of FSP APB 14-1 and FSP EITF 03-6-1.

KAYDON CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION

| | April 4, 2009 | December 31, 2008 |
|--|------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 220,347,000 | \$ 232,998,000 |
| Accounts receivable, net | 66,210,000 | 78,918,000 |
| Inventories, net | 115,062,000 | 97,748,000 |
| Other current assets | 15,331,000 | 18,395,000 |
| Total current assets | 416,950,000 | 428,059,000 |
| Property, plant and equipment, net | 183,441,000 | 185,642,000 |
| Goodwill, net | 142,704,000 | 142,424,000 |
| Other intangible assets, net | 24,683,000 | 25,746,000 |
| Other assets | 6,217,000 | 7,911,000 |
| Total assets | \$ 773,995,000 | \$ 789,782,000 |
| | | |
| Liabilities and Shareholders' Equity: | | |
| Accounts payable | \$ 25,816,000 | \$ 35,080,000 |
| Accrued expenses | 26,315,000 | 27,682,000 |
| Total current liabilities | 52,131,000 | 62,762,000 |
| Long-term liabilities | 55,127,000 | 54,390,000 |
| Shareholders' equity | 666,737,000 | 672,630,000 |
| Total liabilities and shareholders' equity | \$ 773,995,000 | \$ 789,782,000 |

KAYDON CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

| | First Quarter Ended | |
|---|-----------------------|--------------------------------------|
| | April 4, 2009 | As adjusted (1) March 29, 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 10,124,000 | \$ 15,319,000 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 4,694,000 | 3,692,000 |
| Amortization of intangible assets | 1,070,000 | 1,365,000 |
| Amortization of stock awards | 1,035,000 | 1,101,000 |
| Stock option compensation expense | 330,000 | 227,000 |
| Excess tax benefit from stock-based compensation | 22,000 | (23,000) |
| Deferred financing fees | 62,000 | 387,000 |
| Net change in receivables, inventories and trade payables | (14,119,000) | (18,715,000) |
| Net change in other assets and liabilities | 3,416,000 | 9,359,000 |
| Net cash from operating activities | 6,634,000 | 12,712,000 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment, net | (5,376,000) | (14,762,000) |
| Sales of investments | 1,416,000 | 56,919,000 |
| Acquisition of business, net of cash received | - | 489,000 |
| Net cash from (used in) investing activities | (3,960,000) | 42,646,000 |
| Cash flows from (used in) financing activities: | | |
| Cash dividends paid | (5,750,000) | (4,171,000) |
| Purchase of treasury stock | (8,871,000) | (7,599,000) |
| Excess tax benefit from stock-based compensation | (22,000) | 23,000 |
| Proceeds from exercise of stock options | - | 24,000 |
| Net cash used in financing activities | (14,643,000) | (11,723,000) |
| Effect of exchange rate changes on cash and cash equivalents | (682,000) | 2,531,000 |
| Net increase (decrease) in cash and cash equivalents | (12,651,000) | 46,166,000 |
| Cash and cash equivalents - Beginning of period | 232,998,000 | 229,993,000 |
| Cash and cash equivalents - End of period | <u>\$ 220,347,000</u> | <u>\$ 276,159,000</u> |

(1) Results for the First Quarter Ended March 29, 2008 have been adjusted, as required, for the retrospective application of FSP APB 14-1.

**KAYDON CORPORATION
EARNINGS PER SHARE**

| | First Quarter Ended | |
|---|---------------------|--------------------------------------|
| | April 4, 2009 | As adjusted (1) March 29, 2008 |
| Earnings per share - Basic | | |
| Net income | \$ 10,124,000 | \$ 15,319,000 |
| Less: Distributed and undistributed earnings allocated to participating securities - Basic | <u>(114,000)</u> | <u>(232,000)</u> |
| Income available to common shareholders - Basic | \$ 10,010,000 | \$ 15,087,000 |
| Weighted average common shares outstanding - Basic | <u>33,323,000</u> | <u>27,384,000</u> |
| Earnings per share - Basic | <u>\$ 0.30</u> | <u>\$ 0.55</u> |
| Earnings per share - Diluted | | |
| Net income | \$ 10,124,000 | \$ 15,319,000 |
| Less: Distributed and undistributed earnings allocated to participating securities - Diluted | (114,000) | (232,000) |
| Plus: Interest and debt issuance costs amortization related to Contingent Convertible Notes, net of tax | <u>-</u> | <u>2,780,000</u> |
| Income available to common shareholders - Diluted | \$ 10,010,000 | \$ 17,867,000 |
| Weighted average common shares outstanding - Diluted | | |
| Weighted average common shares outstanding - Basic | 33,323,000 | 27,384,000 |
| Potential dilutive shares resulting from stock options | 7,000 | 34,000 |
| Dilutive shares resulting from Contingent Convertible Notes | <u>-</u> | <u>6,859,000</u> |
| Weighted average common shares outstanding - Diluted | <u>33,330,000</u> | <u>34,277,000</u> |
| Earnings per share - Diluted | <u>\$ 0.30</u> | <u>\$ 0.52</u> |

(1) Results for the First Quarter Ended March 29, 2008 have been adjusted, as required, for the retrospective application of FSP APB 14-1 and FSP EITF 03-6-1.

KAYDON CORPORATION
Reportable Segment Information
(Amounts in thousands)

| | First Quarter Ended | |
|---------------------------|---------------------|-------------------|
| | April 4, 2009 | March 29, 2008 |
| Net sales | | |
| Friction Control Products | \$ 72,195 | \$ 74,109 |
| Velocity Control Products | 12,159 | 18,752 |
| Sealing Products | 10,572 | 11,501 |
| Other | 15,409 | 18,922 |
| | <u>\$ 110,335</u> | <u>\$ 123,284</u> |

| | First Quarter Ended | |
|---|---------------------|--------------------------------------|
| | April 4, 2009 | As adjusted (1) March 29, 2008 |
| Operating income | | |
| Friction Control Products | \$ 12,482 | \$ 17,594 |
| Velocity Control Products | 2,176 | 5,592 |
| Sealing Products | 597 | 1,514 |
| Other | 756 | 2,133 |
| | <u>16,011</u> | <u>26,833</u> |
| Total segment operating income | 16,011 | 26,833 |
| Items not allocated to segment operating income | (491) | (669) |
| Interest expense | (62) | (4,407) |
| Interest income | 130 | 1,936 |
| | <u>130</u> | <u>1,936</u> |
| | <u>\$ 15,588</u> | <u>\$ 23,693</u> |

(1) Results for the First Quarter Ended March 29, 2008 have been adjusted, as required, for the retrospective application of FSP APB 14-1. The state income tax provision is no longer included in segment operating income and amounts in the first quarter of 2008 have been reclassified to conform to this presentation.

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

| Free cash flow, as defined (non-GAAP) | First Quarter Ended | | LTM | |
|--|---|-------------------|------------------|-------------------|
| | April 4, 2009 | March 29, 2008 | April 4, 2009 | March 29, 2008 |
| | Net cash from operating activities (GAAP) | \$ 6,634 | \$ 12,712 | \$ 51,822 |
| Capital expenditures | (5,376) | (14,762) | (50,124) | (61,451) |
| Free cash flow, as defined (non-GAAP) | \$ 1,258 | \$ (2,050) | \$ 1,698 | \$ 7,402 |

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.

| EBITDA, as defined (non-GAAP) | First Quarter Ended | | LTM | |
|---|---|--------------------------------------|-------------------------------------|--------------------------------------|
| | April 4, 2009 | As adjusted (1) March 29, 2008 | As adjusted (1) April 4, 2009 | As adjusted (1) March 29, 2008 |
| | Net cash from operating activities (GAAP) | \$ 6,634 | \$ 12,712 | \$ 51,822 |
| Gain on sale of a component of a reporting segment | - | - | - | 5,033 |
| Net change in receivables, inventories and trade payables | 14,119 | 18,715 | 33,118 | 19,398 |
| Net change in other assets and liabilities | (3,416) | (9,359) | 3,116 | 2,308 |
| Other, net | (84) | (364) | (72) | (1,298) |
| Net interest (income)/expense | (68) | 2,471 | 1,964 | 2,012 |
| Provision for income taxes | 5,464 | 8,374 | 33,035 | 38,039 |
| EBITDA, as defined (non-GAAP) | \$ 22,649 | \$ 32,549 | \$ 122,983 | \$ 134,345 |

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.

(1) Results have been adjusted, as required, for the retrospective application of FSP APB 14-1.