KAYDON CORPORATION

Moderator: James O'Leary
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Operator: Welcome to the Kaydon Corporation's second quarter 2007 earnings conference call.

Before the conference begins, the company would like to make the legal disclaimer that certain information in this formal discussion and that may be included in the question-and-answer session is forward-looking within the meaning of the Federal Securities laws. There forward-looking statements are only predictions based on the company's current expectations about future events.

While the company believes that any forward-looking statements made are reasonable, actual results could differ materially since the statements are based on the company's current expectations and are subject to risks and uncertainties beyond the control of the company. Listeners are cautioned to refer to the company's Form 10-K for a list of factors that could cause its results to differ from those anticipated in any forward-looking statement.

The company does not undertake and expressly disclaims any obligation to update or alter its forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

During this conference call, Kaydon spokespersons will reference certain non-GAAP measures. To assist you in understanding such non-GAAP measures as well as to comply with SEC requirements, the company has included in their press release reconciliations of non-GAAP measures to their most directly comparable GAAP measures. Today's conference is being recorded.

Now I would like to turn the call over to Mr. James O'Leary, Chairman and Chief Executive Officer of Kaydon Corporation. Mr. O'Leary, please go ahead.

James O'Leary: Thanks Richelle. Good morning and thanks for joining us today. I'm pleased to be reporting on a strong quarter, and of equal if not greater importance, our continued plans to invest in the future of our business.

I'm joined this morning by Ken Crawford, Senior Vice President and Chief Financial Officer and Peter DeChants, Senior Vice President responsible for Corporate Strategy and Development.

During the quarter, Kaydon had record sales of 113.4 million, up 10.4 percent over last year's strong second quarter.

Operating income, which included net additional expenses of 1.2 million, which I'll discuss in a minute, increased 8.3 percent to 28.3 million, resulting in operating margin of 25 percent.

Net income increased 11 percent to 19.6 million, and diluted earnings per share increased to 61 cents, also up almost 11 percent over last year's second quarter.

During the quarter we had record second quarter order entry of 128.5 million, leaving us with record quarter end backlog of 201.5 million going into the back half of the year.

Assuming continued economic strength across our many businesses, this positions us well for the remainder of 2007 and into 2008.

Gross profit for the second quarter was 48 million or 42.3 percent of sales as compared to 43.6 million or 42.5 percent of sales during last year's second quarter.

Gross margin was impacted by about $300,000 of cost to ramp up our wind energy business and to relocate certain sealing products business lines. As discussed on our last call, we expect to incur about 1.5 million in each of the next two quarters, so three million in total. Actually it's a little bit different than our last call. A little bit more has shifted into the back half of the year, which Ken or I will discuss a little bit more briefly in a few moments.

So again, about 1.5 million in each of the next two quarters, three million in total to get the first phase of our wind energy expansion up and running and to finalize the sealing products relocation to Mocksville, North Carolina. About two million of this will hit gross margin, and about one million will hit SG&A.

SG&A expenses were 19.6 million or 17.3 percent of sales during the second quarter as compared to 17.4 million or 17 percent same quarter last year.

As mentioned a moment ago in our conference call we, in our last conference call, we incurred net additional expenses of 1.2 million in the current quarter associated with our recent management transition, offset modestly by the benefit of favorable insurance expenses. These expenses included a brief period of duplicate salaries and the vesting of previously granted equity awards.

Operating income during the second quarter of 2007 was 28.3 million or 25 percent of sales as compared to 26.2 million or 25.5 percent of sales in 2006, an increase of 8.3 percent.

Now let's go through the operating segments. Sales of friction and motion control products increased 4.3 million to 65 million or 17, or 7.1 percent as compared to the second quarter of last year. This increase was driven largely by strong sales of split roller bearings in almost every market we sell into. The segment was also positively affected by increased demand for specialty bearings utilized in military and heavy equipment markets partially offset by weaker sales to manufacturers of semiconductor and medical equipment, all relative to the levels attained in last year's second quarter.

Operating income in the friction and motion control products segment increased to 18.6 million or 4.5 percent higher in the same quarter of last year. Operating margin equaled 28.6 percent as compared to 29.3 percent attained in the prior year.

The slight drop in segment operating margin was attributable to the shift in mix driven by a higher proportionate growth of lower margin, but still high margin split roller bearings and the initial cost of the wind energy ramp up. Second quarter orders in this segment increased 2.3 million to 77.6. This growth was achieved despite comparisons with a very strong quarter of 2006, which included 23.5 million of wind energy orders. We'll talk in a little while about the staging and the lumpiness of these orders and how they affect comparisons. But this was an excellent quarter as compared to a strong quarter last year that included a high percentage of wind energy orders.

If you remember, we typically receive large, discreet orders for specialty bearings in the wind energy that result in an uneven flow of when orders are booked. As you know, we booked 32.3 million of orders for these products during this year's first quarter as compared to 13 million in this quarter.

I'll discuss our expanded capital expenditure program to accommodate our organic growth program in a bit later.

In velocity controls, second quarter 2007 sales increased 1.9 million to 16.2 million or 13.2 percent over last year driven by continued strong results everywhere, but particularly from our distribution arm in Germany. Operating income from velocity control products increased to 4.2 million or 28.3 percent higher than the second quarter of last year, while operating margin rose from 23.1 percent to 26.1 percent, primarily as a result of operating leverage experienced on higher sales. Orders increased in both North America and in Europe.

Sales of sealing products increased 700,000 to 11.5 million or 6.4 percent higher than last year with the growth due to higher demand principally in the aerospace market. Operating income of sealing products increased 200,000 to two million with operating margin rising to 17.2 percent from 16.1 percent last year, with the improvement driven by generally higher sales and the result into operating leverage.

Orders during the second quarter of 2007 rose to 13.2 million or 7.9 percent higher than last, resulting from strong orders from both aerospace and hydrocarbon processing industries.

Finally, in our other product segment, sales increased to 20.8 million during the second quarter, an increase in the second quarter of last year of 3.8 million or 22.7 percent, principally as a result of higher demand for filtration products.

Operating income for the company’s remaining businesses improved to 3.2 million in the second quarter of 2007 as compared to 1.5 in the second quarter of 2006.

Second quarter operating margin for these businesses equaled 15.4 percent as compared to 9.1 percent in the prior year.

Improvement in profitability came largely from the benefits of a plant consolidation in our liquid filtration business, and the absence of the consolidation costs incurred in the second quarter of last year as to affect such consolidation.

Overall, both companies within the filtration group in other performed extremely well.

Now I'll turn it over to Ken. Ken?

Ken Crawford: Thanks Jim,and good morning everyone. Picking up below the operating income line, we earned 5.1 percent on average cash investments of $372.4 million during this year's second quarter, and that generated 4.8 million of interest income.

Last year, we earned 4.7 percent on average cash investments of $331.2 million, which generated 3.9 million of interest income.

Interest expense during both the second quarter of 2007 and 2006 was $2.4 million with the only debt outstanding being our $200 million of convertible debt. The effective tax rate for the second quarter of 2007 was 36.1 percent, which is, which is expected to be the rate for all of 2007. The effective tax rate for the second quarter of 2006 was also 36.1 percent.

Net income for the second quarter was 19.6 million or 61 cents per share on a diluted basis, an increase in diluted earnings per share of 10.9 percent when compared with the second quarter of last year net income of $17.7 million or 55 cents per share on a diluted basis.

EBITDA is a non-GAAP measure we consider to be an important indicator of financial health. During the quarter, EBITDA was $34.6 million as compared to EBITDA for the second quarter of 2006 of $30.6 million. EBITDA for the last 12 months ended June 30th of this year totaled $122.8 million as compared to EBITDA for the last 12 months ended July 1, 2006 of $103.8 million.

Free cash flow is another non-GAAP measure we consider to be an important indicator of the company's health as it reflects our ability to generate cash in excess of both growth and maintenance capital investment. Free cash flow during the second quarter of 2007 was $6.3 million as compared to free cash flow of $19.4 million during the second quarter last year.

Capital expenditures were $9.3 million higher during this year's second quarter, and net cash flow from operating activities was down 3.8 million, largely due to increased working capital created by higher sales.

Free cash flow for the last 12 months ended June 30th, 2007, totaled $50.3 million as compared to free cash flow for the last 12 months ended July 1, 2006 or $46 million.

Again, EBITDA and free cash flow should be viewed as supplemental data rather than as substitutes or alternatives for the GAAP measures. We've included in our earnings release a reconciliation of these two metrics to the most comparable GAAP measures for your reference.

On to the balance sheet, cash and cash equivalents totaled $374.1 million at the end of this year's second quarter as compared to $370.8 million at the end of 2006. Long-term debt remains unchanged at $200 million equal to 30.2 percent of total capitalization.

During the second quarter of 2007, the company paid cash dividends of $3.4 million, repurchased a total of 80,000 shares of company common stock for $3.9 million, and invested 12.8 million in net capital expenditures.

As you've already heard, order entry was strong during the second quarter of 2007, and we achieved a quarterly record of $128.5 million, an increase of 7.5 percent over last year's second quarter.

The variability and size of orders of large diameter bearings for the wind energy market affects quarterly year-over-year comparisons and creates challenges in assessing a normalized run rate.

That said, we are very pleased with our second quarter order entry, and the result in backlog at the end of the second quarter, which equaled a record $201.5 million. This is a 24.7 percent increase compared to backlog of $161.5 million at the end of last year's second quarter.

Now I'd like to give those of you working on models a few cautionary words. As our wind energy orders will ship later than our typical pattern, the overall timing of when we expect our backlog to ship has changed from being approximately 50 percent during the next subsequent quarter, approximately 35 to 40 percent during the next two subsequent quarters and 10 to 15 percent over the final three subsequent quarters. And now being approximately 40 percent during the next subsequent quarter, 35 percent during the next two, and a final 25 percent over the final three subsequent quarters. This shift in timing is tied to both demand and to when we expect our capacity under construction for large diameter bearings to come online.

In addition to sales shipped from our backlog, the company also generates approximately 25 to 40 percent of its quarterly sales on a book and ship basis where the order and the sale both occur in the same quarter. Because of summer shutdowns at several of our customers, particularly in Europe during the long end of summer holidays, our book and ship business is historically the slowest during the third quarter of each year.

This coupled with the incurrence of about $1.5 million of ramp up and relocation costs to leave you with third quarter margins that are lower than our normal run rate given these unusual costs and the seasonal loss and absorption during the third quarter.

That said, last year we experienced a pop in third quarter margins from some profitable, large military book and ship business, which of course is always a possibility. However, absent that, you should expect to see margins dip in Q3 and then recover in Q4, which is seasonally a stronger quarter.

Now I'll turn the call back over to Jim.

James O'Leary: Thanks Ken. 2007 is an important investment year for Kaydon as we lay the groundwork for future organic expansion. Last year, we began investments in a major growth initiative supporting our specialty bearings business serving the rapidly growing wind energy market. After further and ongoing analysis of the current supply, demand dynamics that currently exist in servicing this exciting, growing, wind energy end market. In response to the needs of our customers, current and perspective, we've made the decision to further expand our capital program.

As noted in our press release this morning, yesterday our board of directors approved an additional phase of major capital expansion to supply the wind energy industry. This expansion, together with the previously announced expansions, will provide us with substantially increased manufacturing capacity to satisfy the rapidly growing wind turbine business. This phase will entail additional capital expenditures of approximately 25 million over the next 18 months to meet the wind turbine manufacturer's requirements for advanced, custom bearing assemblies up to 11 feet in diameter for new, larger, wind turbines up to three megawatts in capacity.

The company's total investments for these expansion programs will now be approximately 78 million when completed.

The calendar 2007, we now expect total cap ex to approximate 56 million as compared to 26.3 last year.

Also during the first quarter, we made the decision to relocate a portion of our manufacturing capacity in sealing products from a higher cost facility in Baltimore, Maryland to a lower cost facility in Mocksville, North Carolina. This relocation is expected to be completed by the end of this year and will result in a significantly more efficient manufacturing process and subsequently higher profitability.

As was previously disclosed, as these projects were completed this year, we expect to incur additional cost related to severance, recruiting, training, duplicate labor and such. After incurring 500,000 of these expenses during the second quarter, we expect to incur the remaining three million, two million in gross margin, one million in SG&A, evenly over the next two quarters.

Also as noted in our press release, we're highly confident in our ability, in the ability of our businesses to generate high levels of cash in excess of the cap ex required for both growth and maintenance. This, and our strong balance sheet, will allow us to prudently return capital to shareholders in the form of both share repurchases and periodically increase dividends while driving organic growth and opportunistically evaluating acquisitions.

As a testament to that confidence, our board raised our quarterly dividend by 25 percent yesterday, and, as just noted, we repurchased approximately 80,000 shares during the quarter.

I would note that the large percentage increase in dividend this year is more recognition that we haven't increased in awhile than establishing a precedent for this level of increase. That said, we expect to review it annually as well as be much more opportunistic repurchases of our shares.

In summary, we're pleased with our second quarter results. The 201.5 million quarter end backlog positions us well for the remainder of 2007 and beyond, as we've expanded our internal capabilities to serve segments enjoying strong secular growth. This position, combined with our strong balance sheet and tremendous financial flexibility provides us with the resources to drive internal growth while selectively evaluating external opportunities. Our strong financial position and free cash flow also allow us to prudently return capital to our shareholders in the form of both share repurchases and dividends as we drive profitable growth.

Two final notes, first, I'd like to welcome two new directors to Kaydon's board, Mark Alexander and Pat Coyne. Mark joins us from Suburban Propane, a publicly traded Master Limited Partnership in the energy distribution business with over a million residential, commercial and industrial clients. Before assuming the leadership as Chief Executive of Suburban Propane, Mark ran mergers and acquisitions for Hanson Industries during one of its most exciting and expansive periods. I believe his experience in this area will be invaluable to us in the future.

Pat Coyne joins us from Delaware Investments, a diversified asset management company with over 160 billion of assets under management. Pat's currently President of Delaware Investments and Chairman of the Delaware Mutual Fund Board. And he was previously Chief Investment Officer over equity products and Chief Investment Officer over fixed income products. His perspective as an investor, and as an investment professional, both in equity and fixed income products will give us a unique perspective both on how we're viewed by many of our outside constituents, as well as the seasoned daily (participants) experienced in capital markets.

Second, and lastly, I'd like to thank each one of our Kaydon employees for their efforts in making this an excellent quarter. Our most valued and valuable assets are our many employees throughout Kaydon, and we'd like to thank them for the great work done this quarter and perspective for their efforts ahead.

That concludes the formal presentation. Richelle, I'd like to turn it over to you to start questions.

Operator: Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question, please press star followed by the digit one. If you are on a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, star one to ask a question, and we'll pause for just a moment.

In our first question, we'll hear from Steve Barger with Key Bank Capital Markets.

Steve Barger: Good morning.

James O'Leary: How are you Steve?

Steve Barger: I'm OK. Nice quarter.

Male: Thank you.

Steve Barger: On the last call, you had said that you and Peter were reviewing all the deals that Kaydon had passed over in the last year to see if there were any interesting opportunities. Anything internal that you're looking at or are more of the deals external?

James O'Leary: The differentiation being, when you say internal versus external?

Steve Barger: Things that you had passed on before but were on your desk, versus new things that you have to find outside.

James O'Leary: Sure. Let me give you a two minute overview of what we've been doing over the last 100 plus days on the M&A front.

Steve Barger: OK.

James O'Leary: We've evaluated pretty much every deal that we've looked at, and ended up in some cases going back beyond a year to see what had closed, what hadn't closed, what was worth trying to beat some life into its chest if necessary.

And I think to sum it up, the things that should have closed, because they were deals worth doing and somebody else got a hold of them, probably did. You know, we looked at something that actually ITT just closed of a competitor of Ace's that was interesting. It was in, basically, exclusivity by the time we revisited it. Things like that that I think were good companies, good businesses, we had taken a look at but ended up closing, you know, basically are gone by the boards.

I'd say that another population, maybe it's a third of them that we looked at, you know, either pulled back from or ended up not going forward in the process that didn't close, and, you know, I'm thinking of one in particular there where it probably wouldn't have closed anyway. It didn't stand up under due diligence or the numbers got soft during the process, and even though we've kind of got lines in the water on them, if they come back, I would not say there's anything eminent there.

The new category, I'd say a new population potentials are things that we're looking at that have been sourced or came up over the last couple of, last couple of months, and what we've done, Peter and I, is either get out to the bankers, have the bankers come here, a lot of them are contacts I've had in a prior life. A lot of them are people that Peter and my predecessor had been dealing with for the last few years, and we're really trying to jump start some of those relationships.

We, I believe, are being a bit more expansive in our M&A criteria. We're looking at bigger things than we had previously. I think in recognition to, you know, a number of factors that I don't think are going to change, whether it's equity extraction, and even though rates have backed up a bit recently, you know, rates are still pretty low if you're in the, if you're in the (LBL) game or if you're in the acquisition game. So I think our thoughts on prices for good companies are a bit more expansive, and we're actually looking at a few things that would be complimentary to existing businesses. So I think the mantra of they have to be perfect stand alone businesses we've expanded on a bit. You know we're certainly still looking at those things, but if you look at Kaydon's size today, our financial capability, and the overall market for quality businesses like ourselves, by expanding those criteria I think we broaden the pool. Now that said, I would not tell you there's anything eminent, but we're pretty much looking at things everyday now.

Steve Barger: OK, thanks for the, for that overview. I want to shift a little bit to the $25 million incremental. And I'm sorry if I missed this, but did you say how much you'll be able to support now in 2007 from a sales standpoint and in 2008 as you layer in this incremental capacity?

James O'Leary: 2008 won't be materially different than what we've talked about before, which is about 100 million.

Steve Barger: OK.

James O'Leary: As you get towards the back half, our run rate goes up to about 120 and 125 thereafter. By the time we're fully (capacitized), during '08, I think we're at about 122 to 125. That number, obviously, has a high degree of variability in that it's based on today pricing. It's also based on today's mix, neither of which I'd want to give out now, but, you know, I think it could be favorable depending on the shift from 1.5 diameter and up, and if you still have the type of supply, demand dynamics as we diversify our customers base, we hope there's opportunity to gain a little bit more in priced markets there.

Steve Barger: Right. As the market shifts to a larger diameter, does that structurally limit some of the current competitors that are out there, or do you think you have a significant advantage that will allow you to take, you know, incremental market share for those bigger towers?

James O'Leary: I don't think we have an advantage of the existing competitors, but I think the key issue is there aren't that many competitors.

Steve Barger: Right. And just kind of conceptually, I know it's very early in the rollout for the capacity, but as sales increase for wind power, do you have to give up price in exchange for volume, and maybe not because there are fewer competitors, but if you do, will you be able to offset that internally and kind of maintain the same margins that you're seeing right now and as you look at?

James O'Leary: Well I think, you know, for the foreseeable future, and the foreseeable future, let's say, is the next two to three years, the supply, demand imbalance is such that I don't think you have to give up price to get volume. There's such a shortage. And the needs of our customers are such that, you know, they're not (hondling) over price on what is a key component of a large, hugely value added to their own businesses component. So I don't think you have to give up price to get, to get volume in the foreseeable future. And probably in the foreseeable future, if you continue to have the level of supply shortages, you could potentially capture price from new participants who want to do business and see us as a quality, high value added supplier.

Steve Barger: All right, that sounds great. I'll jump back in line. Thanks.

James O'Leary: Thank you Steve.

Operator: And next we'll move to Peter Thompson with Coho Partners.

Peter Thompson: Morning Jim and Ken. Just out of curiosity, can you give us any flavor for the backlog and what percent of the backlog is kind of in these newer markets like wind and medical for you guys?

James O'Leary: Sure.

Peter Thompson: And can you also – and just out of curiosity – in the revenue run rate that's kind of happening now, how much of this is wind already, or wind related?

Ken Crawford: OK, in the backlog of $200 million, approximately 60 million of that is wind, and we are expecting '07 wind sales to be about 15 to $20 million higher than they were a year ago.

James O'Leary: And Peter, we appreciate your curiosity, the one thing, a cautionary note is, you know, remember when you compare backlogs, our criteria are we may have orders that are out beyond 18 months …

Peter Thompson: Understood, totally understand yes. Totally understand.

Male: And something I think is very encouraging about this quarter is when you look at 30 plus last quarter, 12 or 13 million sequentially this quarter, if you look at a very strong comp last quarter or last year as this quarter on a comparable basis year-over-year, this was a pretty strong quarter in terms of military orders, heavy equipment orders, filtration orders, you know, absent wind it was still a pretty, a pretty robust quarter in terms of what came in.

Really the only two markets that were a bit soft, and I think they were soft because qualifications took a bit in the medical side of the business, and semiconductors a bit soft, but, you know, when you look at the broad stand of who we serve and where we do business, you know, every end market was pretty healthy with the exception of two that I can think off the top of my head. And there may be one or two others, but, you know, the things that really drive our business, military, wind energy, heavy industrial equipment, you know, ours was still pretty good this quarter.

Male: Yes, Peter, we've given you all these numbers, so I'm sure you're going to be able to do the math…

Peter Thompson: Sure.

Male: … the wind, we told you wind a year ago in the second quarter was 23 million. This year it was 13 million, so if you back those numbers out of our total orders, second quarter '07 versus second quarter '06, you come up with a greater than 20 percent improvement in non-wind orders, so positive across the board.

Peter Thompson: Right, and are you guys still as encouraged about the margins on wind going out that they should be kind of above the general corporate average?

Male: No, I think we said they'd be consistent with the general corporate average. And the general corporate average is the highest margin company pretty much in the industrial space is pretty good.

Peter Thompson: Yes, wonderful. Listen, thanks very much for that color.

Male: You're welcome, Peter, thank you.

Operator: And next we'll move on to Nigel Coe with Deutsche Bank.

Nigel Coe: Thanks, good morning.

James O'Leary: Nigel, how are you?

Nigel Coe: Yes, good thanks. So the expansion of capacity in wind, does that relate to, you know, orders you've already got in your backlog, or are you putting capacity to enable you to compete for those large (bam) for bearings?

Male: Putting in capacity to compete with new business and (not) things in our backlog, and to source other business. We'd like to broaden our customer base. We'd like to meet, you know, most importantly we'd like to meet the growing needs of our existing customers, so it's more for new business than existing orders.

Nigel Coe: OK. You know, with some of the aerospace stocks, you know, bearings pops up as a persistent, you know, capacity shortfall, and, you know, I know you do play in the assets market, but you say you're not the biggest player there. I mean is that an area you're looking at to maybe expand capacity in?

Male: Absolutely. Well I don't know if we necessarily have to expand capacity, but we are banging on doors. We're, you know, trying a lot harder to get business there because we recognize that it's an opportunity that, we used to get looks at – and this is probably 10 years ago or back – to a much greater extent than we do. You know, I wouldn't say we withdrew from that business, but we've done less of it over the last few years. And it's a great opportunity for us, but, you know, it takes while. You've got to get qualified. You've got to be on people's doorstep for, in some cases, a few years, and we've been doing that, and we'll continue to do that, and we're pretty optimistic.

Nigel Coe: OK. You know, you mentioned that ITT bought IMC and you said you had to look at that business. You know, they're looking to, they're pretty bullish on their ability to maybe consolidated that space. I mean how, does that purchase change the way you think about, you know, your business and, you know, maybe being opportunistic with that business?

Male: Well opportunistic is by definition opportunistic, but we're still looking to grow that segment. You know, we don't view that purchase as necessarily being threatening to our business. In fact, orders were great in North America and in our overseas markets, but opportunistic is by definition opportunistic. But we're looking to grow that.

And I think, as we've talked about, as we've gotten out and saw people over the last three months, what I'd love to do, in addition to growing our specialty bearings business, is look to get a little bit more critical mass in velocity control in sealing products. But you always have to be, you always have to be open minded about opportunities. That's the definition of opportunistic right?

Nigel Coe: Sure. Absolutely and just a final one, Jim, yes, on the relocation costs, on the facility relocation costs, how much of that fell within this quarter?

Male: Three hundred?

Male: Three hundred in gross margin and another round up to 200,000 – 500,000 in total in Q2.

Nigel Coe: OK, thank you very much.

Male: And (as always, my personal) relocation costs.

Operator: And next we'll move on to Ian Fleischer with FDR Capital Markets.

James O'Leary: Hello Ian, how are you?

Ian Fleischer: Good. Good morning. Just a clarification, the special item expenses that ran through the spend, through the P&L, the net amount, was that 1.7 million, did I get that number right?

Male: One point two, 1.5 net of three, 300.

Male: Yes, yes that was the 1.2 we talked about, and then the 500 that I just mentioned related to the ramp up and the relocation.

Ian Fleischer: OK, and then you have an additional one and a half over the next couple of quarters.

Male: Each quarter, right.

Ian Fleischer: OK. And just getting back to the incremental capacity for wind energy, is that incremental capacity going to be just supporting the U.S. market, or does that also support some international business

Male: It is, you have to look at it, I think, internationally. And we've wrestled a lot with, you know, what percentage will our (capacitization) be of just North America, just this set of customers, what are the end markets. The challenges, regardless of where they're assembling them, who knows where they're ending up in a lot of cases. I would say it's, if you had that as a sound bite for it, it's in support of the global market because in a great many instances it's being assembled and shipped elsewhere, and I don't know if we necessarily, I don't know if the industry necessarily has a good feel for that.

Ian Fleischer: Does it make sense or can it work economically to make it North America and ship it to Europe?

Male: Yes, I think it does right now.

Ian Fleischer: OK. And just go back to, if you would, on the velocity control, that was a very strong quarter, you know, sales growth is strong and the incremental was approaching 50 percent. What end markets are driving that business at that point?

Male: That’s industrial, industrial strength in the U.S., and if you look at the German business in particular, industrial business in every market base serve Germany, some of the adjacent companies, including Benelux. I mean it’s across the board strength. The stronger of the two, although they were both strong, were the international businesses where you picked up a little bit on currency, maybe half a million.

Male: Half a million in sales and a quarter of a million maybe in profit.

Male: Yes, so you picked up a little bit in currency, but, you know, quite frankly, every market our (affiliate) in Germany is servicing is doing extremely well.

Ian Fleischer: So is it fair to say that Europe is doing better than the U.S. there?

Male: On a relative basis, but the U.S. is still up.

Ian Fleischer: Right and this is my final question. Filtration, filtration, both of your filtration businesses were strong. Can you just touch on the drivers there?

Male: In the case of our liquid filtration business, military, I think to some extent hydrocarbon processing as well of the oil business. In the case of the, you know, Purafil is such a unique company, you know, I don’t know if that necessarily has a cyclical or an obvious end market, but it’s just across the board shrink, particularly internationally.

Ian Fleischer: Great, thanks very much.

Male: You're welcome, thank you.

Operator: And next we'll move to Walt Liptak with Barrington.

Walt Liptak: Hi, thanks, good morning guys.

James O'Leary: Hi (Walter), how are you?

Walt Liptak: My question is on the modeling guidance. And just so I understand, are we talking about taking 20 million in revenue out of the third quarter and then putting that into 2008?

James O'Leary: No. The only thing we're flagging you on the, on the third quarter relative to now in the fourth quarter is there is a potential that, you know, with the typical summer shutdown, and if you don't get a lot of at once business, you get (your points) or so of lower margins. Part of that also comes from mix within our specialty bearings business, which is part of friction and motion control, and as part of the friction and motion control, the growth and split roller bearings, you'd still see strong sales, but you'd see them at lower margins because of mix and the investment in the 1.5 million is buried there.

Ken Crawford: And Walt, if you go back and look at historically our third quarter, it's typically a lower margin quarter than either the second or the fourth quarter. Last year was an anomaly because we had some, as we mentioned, some high margin business, and we had some unusual SG&A favorable adjustments last year. But typically Q3 is the lower margin quarter than either the second or the fourth.

James O'Leary: Yes, we're not flagging any weakness, but we just don't want you to be surprised if it's a bit lower and then it recovers in the fourth quarter.

Walt Liptak: OK. I guess the revenue part of the question is you mentioned in your comments that the wind energy would ship later. So if you've got 200 million roughly in backlog, 50 percent typically ships in the next quarter, you're saying 40 percent, isn't that, you know, that means the revenue will be lower for the third quarter.

Male: I think, when exactly they ship from 50 percent of backlog shipping to 40 percent of backlog shipping, that's probably already happened. I think the more important issue is the book and ship business. And, you know, I mean again, you go back and look back in our history and you don't have to go back very far. You look last year, and beginning backlog, Q3 versus Q2 a year ago was up $17 million. Beginning backlog in Q3 versus the beginning backlog in Q2 up $17 million, and the sales last year were $3 million less in Q3 than Q2. The dynamic there is that 25 to 40 percent of our quarterly sales that we don't get out of backlog, we get from book and ship business, traditionally goes down in Q3 because of the reasons that we've talked about.

Walt Liptak: Right. OK, got it. OK, thanks very much.

Male: OK.

Male: Thanks Walt.

Operator: And we'll move on to Peter Lisnic with Robert W. Baird.

Peter Lisnic: Morning gentlemen.

James O'Leary: Hey Pete, how are you?

Peter Lisnic: Good, how are you?

James O'Leary: Good thank you.

Peter Lisnic: Excellent. Just one numerical clarification on when the orders for the quarter, I thought I heard 32.3 million at the beginning of the call, and then I heard 23 later. What number was it for this quarter?

Male: For this quarter it was 13 million. The 32 million is what we booked in the first quarter of this year, and the 23 million is what we booked in the second quarter of '06.

Peter Lisnic: OK, got it. And on that capacity expansion, I assume that this is equipment that's got dual use. In other words, you could use it for heavy construction or some other end markets if wind doesn't turn out to be what it is …

Male: Yes.

Peter Lisnic: … might be?

Male: Absolutely it has alternative applications, but let's not kid ourselves, I mean the most highest and most profitable use is for the wind energy business.

Peter Lisnic: OK, fair enough. And then you alluded to medical slowing and due to qualifications, can you just give me a little bit of color there.

Male: Yes. Remember we have put some money, I think about eight million, into a capacity expansion to service medical technology, principally scanners. We were a little bit slower off the mark there than we wanted to, and it had to do with customer qualifications. We're not worried about that at all, it's just taken a little bit longer to get to where we expect it to be. In the short-term, that business – and if you just use what you'd asked about a second ago – you know, most of the capital is for wind energy, and sure that capacity could be put somewhere else, but much more difficult than this capital.

The eight million for medical technology and the capacity we've put there can be used for other applications. (While) we're getting the qualifications on the couple of scanner projects that we're working on actively with customers, we've been able to devote that capacity elsewhere. I think it's principally military. So we're not worried about the qualification issues. Just taking a little bit longer, still a very good business for us long-term, and in the short-term you don't have absorption or near-term profit issues because we've been able to devote the capacity elsewhere.

Peter Lisnic: OK, got it, and then on the million five that you're going to book in the third and the fourth quarter, how much of that is related to the relocation of sealing versus kind of the ramp in wind?

Male: Yes, it's about, of the three million it's probably close to two million on the wind. Let's say a million eight on the wind, and a million two on the relocation, adds up to three million.

Peter Lisnic: OK, all right. And then last question, I guess more generically speaking, what are you seeing in terms of your own pricing ability and kind of what's flowing through on the opposite end of the spectrum in terms of commodity costs and any sort of pressure you might be seeing there?

Male: I think we have seen commodity cost pressure. I think we've been successful in passing them along in most cases, but you know it's a daily challenge. I wouldn't say our margins have been impacted negatively or overly beneficially on either end. I think we've been able to neutralize the effect. Where we've gotten price increases, it's close to the value added we bring, but we've been able to neutralize the cost increases to some extent by either price passthroughs or efficiencies gained. You know, we're doing a lot of things now as well to capture great efficiencies, the Mocksville reorganization is a great example. So I would say nothing noteworthy in either, but sure, there continue to be price increases coming at us, which we've been successful for the most part in passing through and neutralizing through efficiency undertakings.

Peter Lisnic: OK, that answers it. Thank you very much for your time.

Male: Bye, Pete. Take care.

Operator: And we'll take a follow up question from Walt Liptak with Barrington.

Walt Liptak: Hi, thanks. This is a quick on, in your commentary you mentioned that capacity in wind was related to customers. Does that mean that you've got an order or some of your orders are coming in from a second, from a second customer?

Male: Second and third?

Walt Liptak: Second and third, OK. OK, thanks very much.

Male: Thank you Walt.

Operator: And we'll take a follow up question from Steve Barger with Key Bank Capital Markets.

Steve Barger: Hi. I was listening to some of the other conference calls this week, and it seems that some of the industrial manufacturers are talking about potentially some supply chain constraints easing. Is that the case for some of your customers? Are you seeing any of that at all? And does that imply any pull through for your industrial markets that you didn't anticipate in the back half?

Male: Pete, we're silent because we're thinking about it.

Steve Barger: Right.

Male: You know, I think, and I'm reasonably sure I can name the couple of guys you're talking about. Remember, our operations and our business is a little bit more small batch of order specialty for customer use. You know, I can't think of any major sourcing problem we've had that's eased recently. Certainly not anything as noteworthy as some of the other things you might be referring to.

Steve Barger: OK, thanks.

Male: You're welcome.

Operator: And that will conclude today's question-and-answer session. I would like to turn the call back over to the speakers for any additional or closing remarks.

James O'Leary: Richelle, thank you very much. Thank you all for joining us today. And as I said at the end of the prepared remarks, thanks to all the Kaydon people out there who made this a great quarter. We appreciate your efforts and we appreciate all of our investors and analysts for their continued support and attention. So Richelle, that's it. Thanks.

Operator: Thank you. That will conclude today's call. We thank you for your participation.

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