KAYDON CORP.

Moderator: James O'Leary
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Operator: 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.

These 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 that are 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 2006 Form 10-K for a list of factors that could cause its results to differ from those anticipated in any forward-looking statements.

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 liquidity 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 the 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, president and chief executive officer of Kaydon Corporation. Mr. O'Leary, please begin.

James O'Leary: Thank you, (Chris). Good morning and thank you all for joining us. I'm very pleased to be reporting on a strong fourth quarter during which we achieved records in quarterly sales, fourth quarter orders and quarter end backlog.

Also in the quarter, we completed the acquisition of Avon Bearings Corporation; we divested a small strategically unimportant component of our Friction Controls product segment. And we made considerable progress on our organic initiatives aimed at accelerating long term secular growth and reducing structural cost. We'll discuss how each of these steps fits into our strategy of selective market leadership a bit later.

I'm joined this morning by Ken Crawford, senior vice president and chief financial officer; and (Peter DuChance), senior vice president responsible for corporate development and strategy.

In a slight departure from our past practice and a recognition, really, of two things: number one, how dense and complex this quarter may be at first blush; but more importantly, number two, how much the company currently has going on in terms of major capital spending, recent acquisitions and divestitures, investment issues as it rates to a very significant cash balance. And a more uncertain business environment than we've faced in many years, we want to provide you with as much information, as many building blocks as possible without breaking from – without departing from our past practice of not providing formal guidance.

Now that said, it's complex at first blush. I'll kind of jump ahead a little bit and say if you understand the cash how it's draw down and what we're earning on it in this environment you'll actually see that it's a simpler set of comparisons than, again, it is at first blush. And we'll go through it in a fair amount of detail.

We've tried in this press release, and we'll try in the prepared remarks to address as many of these matters as practical short of changing the policy. And as the year goes on we'll try to address these in sufficient detail so you can keep track of them relative to current expectations.

Now, let's start off reviewing the current quarter. During the quarter, we had fourth quarter order entry of 118 million up 22 percent year-over-year. This leaves us with a record quarter end backlog of 238.9 million going into 2008. We'll comment more on 2008 later in the call. But during the quarter, including the recently acquired Avon, Kaydon had record fourth quarter sales of 123.7 million up 23.5 percent year-over-year.

Gross profit for the fourth quarter was 48.2 million or 39 percent of sales as compared to 41.4 million or 41 percent of sales during last year's fourth quarter. The temporary decline in gross margins was largely due to the wind energy expansion, the ongoing ceiling products relocation, a sales mix that's more heavily weighted towards rapidly growing high but lower than the overall average margins within our split role of (Baron Group) and the inclusion of Avon who's profit contribution is minimized somewhat in the first few post closing quarters by acquisition accounting requirements which, again, we'll discuss each component momentarily.

Sell, general, and administrative expenses, including a $5 million pre tax gain on the sale of a component to Friction Control products were 16 million or 13 percent of sales during the fourth quarter of 2007. This compared to 17.4 million or 17.4 percent of sales in the fourth quarter of 2006. Excluding the gain, selling, general and administrative expenses would have been consistent with those attained as a percentage of sales in the prior year.

Operating income during the fourth quarter was 32.2 million as compared to 24 million in the prior year's fourth quarter. On a non-GAAP basis backing out the 5 million gain, our operating margin would have been about 22 percent this year, as compared to 24 percent last year. And again, this temporary decline was largely due to the project just noted.

Net income, including the after tax 3.1 impact of the gain on sale equaled 22.7 – excuse me – 22.7 million or 18.3 percent of sales as compared to 17.7 million or 17.6 percent of sales last year. Diluted EPS equaled 70 cents including the 9 cent gain as compared to 55 cents in the prior year's fourth quarter. Now let's review our operating performance and provide you with a framework for analyzing the year ago.

Sales of Friction Control products including Avon increased 17.2 million to 76 million or 29.3 percent when compared to the fourth quarter of last year. This increase was driven by strong sales of split roller bearings in almost every market we sell into, but most notably in China and India. The segment was also positively effected by increased demand for specialty bearing utilized in the wind-energy market, machinery and medical equipment markets, partially offset by lower sales to semiconductor and heavy equipment. Our heavy equipment effort should be bolstered in the near term by Avon which served this market effectively over its long history.

Operating income from Friction Control products, including the $5 million gain increased to 24.3 million. Operating income in margins were effected by product shifts including growth in the lower but still high margins split roller bearings business, the ramp up of our wind energy expansion project and the inclusion of Avon who's margins are impacted in the short term by acquisition accounting requirements.

Acquisition accounting adjustments totaled about 1.1 million during the fourth quarter of 2007. These factors will continue to effect the segment's operating margin through the first half of 2008 which Ken will provide greater detail momentarily, but after that they'll phase out – they'll phase out.

Operating margin equaled 31.9 percent as compared to 29.6 percent attained in the prior year. Including Avon, fourth quarter orders in this segment increased 14.3 million or 25.8 percent as compared to 69.8 million in the prior year. After the impact of initial accounting adjustments, Avon is expected to generate gross and net margins comparable to Kaydon's existing wind business.

Turning to Velocity Control, fourth quarter 2007 sales increased 2.2 million to 15.6 million or 16.8 percent over the prior year fourth quarter with strong sales in both Europe and the United States. Operating income increased to 3.4 million or 39.5 percent higher than the fourth quarter of 2006 while operating margin rose to 21.9 percent. Orders increased by more than 15 percent over the prior year's fourth quarter with double digit growth achieved by both our United States and European operations.

In Sealing products, sales increased to 11.2 million or 11.2 percent higher than those achieved in the fourth quarter of last year, with operating income of Sealing products declining slightly from 2 million to 1.9 million largely because of direct relocation expenses of 400,000 associated with the ceiling products relocation project. Ken will review this in more detail momentarily and how it will impact the first and second quarter of 2008. By third quarter, we should begin realizing the benefits of this project, which is expected to make us significantly more competitive in competing for new business.

Orders during the fourth quarter of 2007 totaled 12.2 million, an increase of 26.8 percent or 2.6 million compared to the fourth quarter of last year.

And finally within our Other product segment, sales in Other businesses equaled 21 million during the fourth quarter of 2007, an increase from the fourth quarter of 2006 of 3 million principally due to higher demand for our air and liquid filtration products.

Operating income increased to 2.8 million in the fourth quarter of 2007, an increase of 26.9 percent over the prior year. Operating margin equaled 13.3 percent, as compared to 12.3 percent in the prior year. The improvement in both operating income and operating margin was due primarily to the higher sales volume and improved product mix as virtually every business, but particularly our filtration businesses did well.

In total, as well as by segment, order entry was strong during the first – excuse me – during the fourth quarter of 2007 as we achieved a fourth quarter record of 118 million, 22 percent higher than last year's total. Total order entry for 2007 was 505.5 million an increase of 24.7 percent over the full year of 2006. The strong order activity combined with the backlog added from the acquisition of Avon results in a record backlog at year end of 23.8 – of 23 – excuse me – 238.9 million at the end of 2007, a 57.6 increase compared to backlog of 151.6 million at the end of last year.

Our backlog consists of orders shippable over the next six quarters with the overall timing of when we expect to ship being approximately 40 percent in the upcoming quarter, 35 percent over the next two and the final 25 percent over the final three over a six quarter period.

Now I'll turn it over to Ken to discuss some of the key financial items. Ken.

Ken Crawford: Thanks, Jim, and good morning everyone. I'm going to spend a fair amount of time this morning on cash investments and their contributions to earnings because, as you will see its impact respectively on a timing and overall level of 2008s results will be significant.

Starting first with the fourth quarter of 2007 we are earned 5 percent on average cash and short term investments of $307.2 million which generated 3.9 million of interest income. During the fourth quarter of 2006 we earned 5.1 percent on average cash investments of 355.1 million which generated $4.6 million of interest income. The lower average cash and short term investment balances compared to the prior fourth quarter resulted from the Avon acquisition, our third quarter contribution to fund our pension plans and a full year of capital expenditures to support our capacity expansion projects.

As we head into 2008 with total cash and short term investments of $287 million which is approximately $84 million less than at the beginning of 2007. Of at least equal significance looking forward into 2008 is the Fed's recent interest rate reductions and the general flight to safety spread compression caused by the current credit squeeze. This will result in as much as a 200 basis point reduction in the interest rate earned as we presently see it relative to 2007.

Together, the lower average interest rate and our lower average investible balances will reduce first quarter 2008 interest income by approximately $2 million or approximately 4 cents per share on a diluted basis compared with the first quarter of 2007.

Due to the recent highly publicized liquidity problems with previously marketable short term near cash securities, we have opted to be conservative at the present time as the company focuses near term on preserving capital for longer term investment opportunities rather than pursuing higher yields. That said, we believe our financial resources will provide us with the flexibility to take advantage of potentially unique opportunities that may arise during a period when liquidity can be a competitive advantage.

Interest expense during both the fourth quarters of 2006 and 2007 – 2006 and 2007 – pardon me – was $2.4 million with our only long term debt out standing being the $200 million convertible which is addressable at the end of this upcoming May. The effective tax rate during the fourth quarter of 2007 was 32.6 percent compared to 32.7 percent in the prior fourth quarter. Fourth quarter 2007 net income was favorably impacted by $900,000 due to the net tax benefit associated with the company's disposition of an idle facility and adjustments to our deferred tax accounts.

The fourth quarter 2006 tax provision was reduced primarily by deductions recognized for financial reporting purposes after examinations by taxing authorities or after the expiration of applicable review periods. We expect the effect tax rate for 2008 to be approximately 36 percent.

Net income for the fourth quarter was $22.7 million or 70 cents per share on a diluted basis as compared to fourth quarter 2006 net income of 17.1 million or 55 cents per share on a diluted basis and as noted 2007 included the gain on the sale of a component of our Friction Control products reporting segment totaling 9 cents.

EBITDA is a non-GAAP liquidity measure we consider an important indicator of financial health. During the quarter EBITDA including the aforementioned gain on sale was 37.9 million as compared to EBITDA for the fourth quarter of 2006 of $28.4 million. EBITDA for the full year of 2007 totaled 132.5 million as compared to EBITDA for the full year 2006 of 116.1 million.

Free cash flow is another non-GAAP liquidity 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 investments. Free cash flow during the fourth quarter of 2007 was $9.8 million compared to 23.6 million in the prior fourth quarter. This reduction was due to higher capital expenditures to generate long term profitable growth and reduced cash from operating activities associated with working capital increases supporting our sales growth as significant year-over-year growth and fourth quarter sales caused lower cash generation from year end working capital reductions.

Free cash flow for the full year 2007 totaled 20.2 million as compared to free cash flow for 2006 of 63.6 million. The year-over-year reduction was due to the $27.8 million increase in capital expenditures and lower cash from operating activities. The lower cash from operating activities was due to a $19.2 million increase in pension contributions and increased working capital support our sales growth. The full funding of our qualified pension plans in 2007 is expected to eliminate contributions to these plans for the next five years.

Capital expenditures will remain at high levels in 2008 as we expand to take advantage of the outstanding secular growth opportunity in wind-energy.

Again, EBITDA and free cash flow should be viewed as supplemental data rather than substitutes or alternatives to 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.

Turning to the balance sheet, cash and cash equivalents plus short term investments totaled 287 million at the end of the year, as compared to 370.8 million at the end of 2006. Long-term debt remains unchanged to 200 million and equaled 29.3 percent of total capitalization.

During the fourth quarter we acquired Avon Bearings Corporation in a cash transaction totaling $54.9 million. We paid dividends of 4.2 million or 15 cents per share. And we repurchased $7.5 million of common stock and invested $17.1 million in net capital expenditures.

In terms of cash in flows during the fourth quarter, the company received proceeds of $6.5 million for the sale of a component of our Friction Control products reporting segment.

Regarding 2008, we currently expect continued strong financial performance during the quarter. However, during the early part of the year, in particular the first quarter and to a lesser extent in the second quarter, direct start up project expenses, short term outsourcing costs and lost overhead absorption associated with our current growth and cost reduction initiatives will make comparisons to 2007's quarterly results difficult. These expenses could total as much as $2 million during the first quarter of 2008. We expect to realize meaningful benefits from these programs later in the year. Also, approximately $800,000 of additional depreciation and amortization expense associated with acquisition accounting will reduce Avon's contribution to first quarter earnings.

Now I'd like to turn the call back over to Jim.

James O'Leary: Thanks, Ken. 2007 was an important investment year for Kaydon as we laid the groundwork for future growth. We've accelerated investments in a major growth market targeting wind-energy. We've also pushed harder into developing international markets to capture our fair share of available business for each of our leadership companies.

Our capacity expansion will provide Kaydon with substantially increased manufacturing capacity to satisfy the rapidly growing wind-turbine demand for advanced custom bearing assemblies of up to 11 feet in diameter for new larger wind turbines up to three megawatts in capacity. This is supplemented by the Avon acquisition which gives us the capability to make the largest bearings in North America. Together, these investments will give us both a North American and a global leadership position in the strong secularly fast growing global market.

During 2007, we invested 54.1 million in capital expenditures and we expect capital expenditures to be approximately 70 to 75 million in 2008.

Also underway is the relocation of a portion of our Sealing product segment from Baltimore, Maryland to a lower cost facility in Mocksville, North Carolina. This will result in a significantly more efficient manufacturing process and higher profitability which will make us much more competitive for new business opportunities that were previously out of reach from a cost competitiveness perspective.

With respect to acquisitions and divestitures, we're very pleased with the acquisition of Avon Bearings thus far and it's integration into Kaydon. We expect the acquisition to be slightly accretive to Kaydon's earnings within the first full year of ownership and it's all ready been cash accretive. Avon is expected to add approximately 30 million to Kaydon's fiscal 2008 sales. And again, the acquisition solidifies our position as a market leader in the global wind-energy market.

Our decision to sell a portion of our Friction Control product segment was based really on its inability to obtain a market leadership position during its ownership at Kaydon. As a result, we opportunistically divested it when the right offer came along.

Regarding 2008, the company's recent and ongoing investments expand capacity for large diameter bearings, relocate a portion of our Sealing products business and increased our international sales efforts should result in continued strong performance during 2008. However as Ken noted, during the early part of the year, in particular the first quarter, direct and indirect costs associated with these initiatives short term outsourcing costs, and lost overhead absorption as we ramp up will make comparisons with our first half particularly the first quarter of 2007 difficult.

We currently expect to begin to expect realizing benefits of these programs during the end of the second quarter and then into the full year. At the present we expect earnings per share growth for the full year to exceed our long term average target of 10 to 12 percent as the benefits of our capacity expansion and relocation contributes significantly to the last half of 2008 and fully online into 2009.

In summary, we're pleased with our fourth quarter results. Our record quarter end backlog positions us well for 2008 and beyond as we expand our internal capabilities to serve segments enjoying strong secular growth. This completes the year which saw a positive operating performance across each of our segments. And during the year, we made considerable progress on each of the long term initiatives we focused on. In particular, we accelerated our expansion and serving the wind energy market, as well as focused on growing our share in a number of high growth developing countries, notably India and China.

During the past few months we've increased our capital program to serve the large diameter bearing market twice. We've completed the first major bolt on acquisition in the company's history and the first acquisition in several years. We've opened, this past month in fact, a sales office in China for our liquid filtration business. And we've pushed forward a number of other international initiatives including giving our Velocity Controls business the green light to set up a subsidiary in India. In short, it's been a busy couple of months.

We expect meaningful gains in the latter half of 2008 as additional capacity comes online and more important beyond 2008. We believe we're taking all of the appropriate measures to maximize shareholder value well into the future. With our strong balance sheet and tremendous financial flexibility, you can expect to continue driving internal growth while selectively evaluating external opportunities.

Finally, I'd like to thank each of our Kaydon Employees for their efforts this past year, they are our most valuable assets. And I'd like to thank them for the great work done in delivering outstanding results during 2007. And I'd like to thank them prospectively for their efforts in delivering strong performance into 2008 and beyond.

(Chris), that concludes the formal presentation, we'd be glad to take any calls.

Operator: Thank you, Mr. O'Leary. We will now begin our question-and-answer session. If you would like to ask a question, please press the star and one on your touch-tone phone. To withdraw from the queue, you may press the pound sign. Once again to ask a question, press star one now.

Our first question comes from Peter Lisnic of Robert Baird.

(John Householter): Good morning. It's actually (John Householter) on for Pete.

James O'Leary: Hi, (John).

(John Householter): Just a couple of questions for you. First off, could you quantify just in terms of both revenue for the quarter and then what it did to orders and backlog what exactly Avon contributed?

James O'Leary: Sure. (John), you get to ask that question one time because going forward, the integration process with Avon is really pulling that into our existing bearings operations. And we'll be toggling capacity between our existing facility including the one that will be open later in the year in Mexico. And, you know, as an acquired entity Avon really begins to lose its separateness in the to second quarter – or really beginning in the first.

Now, that said, it was run pretty autonomously during the first quarter. That's why we gave you the acquisition adjustments. The sales were about 4.5 million. The orders were about 7 million. And the backlog acquired plus built during the – that fourth quarter of 2007 was about 36.5 million. That's four – about 4.5 in sales, about seven in orders, and about 36.5 of backlog added to Kaydon to the end of 2007.

(John Householter): OK. Thank you for that. And I understand it's being integrated. And I assume, kind of as a natural follow up to that, the (cap outs) outlook you have is some of that is going into Avon itself, right, of the revenue of 75 million?

James O'Leary: A little bit. But a lot of it is still the continuation of our existing Mexico expansion and some internal capital at (Sumpter). We've made some changes to accommodate more capacity going forward for wind-energy and heavy equipment. It will include some capacity expansion or I'd say modest expansion and improvement of the existing capabilities at Avon. But, again, it will fit seamlessly into our existing operations.

(John Householter): OK. Thank you for that. And then turning to cash …

James O'Leary: (John), we're going to limit you. This is your last question because we're trying to limit people to one or two tops.

(John Householter): OK. It looks like you're classifying some of your securities as available for sale. Are there – have you guys taken losses and just taken the hit through equity? Or – I mean what's the exact status there? Have you taken kind of adjustments through shareholders equity that aren't through the income statement?

James O'Leary: I'll let Ken cover that. But, no we haven't taken losses. Ken, do you want to about the classification?

Ken Crawford: Yes, we've taken about $200,000 and it is classified in other comprehensive income. And at the end of the year we did that because we consider those to be other than permanent losses. The good news is that we're getting and have gotten some distributions as our investments are being liquidated. So the amounts are minor and have not effected P&L yet.

(John Householter): OK. Thank you.

Operator: Our next question comes from Walt Liptak of Barrington.

Walt Liptak: Hi, thanks. Good morning, guys and congratulations on the strategic work for looking into 2008.

James O'Leary: Thanks, Walt.

Walt Liptak: My first question is, you know, on the guidance of 10 to 12 percent EPS growth is that – as we look at that, should we work off the base of the reported number, the 241? Or should we look off the adjusted, you know, excluding the gain?

James O'Leary: I'd look off the adjusted excluding the gain. But this also doesn't contemplate things it would, you know, if you said, "Are there going to be divestitures? Could there be other acquisitions? Will there be other or accelerated share repurchase activity?" I'd say for a clean comparison I'd look at excluding the game. But that doesn't contemplate other things we might do.

I think the biggest – I'm going to digress a bit, the biggest thing impacting comparison year-over-year, particularly the distribution of earnings are the cash balances. If you look at the last two years, and really the third – three years if you go back to 2005, the interest income earned on the cash balance was bigger than every segment with the exception of our bearing segment, the Friction Control segment.

And the 18 million earned last year, you know, when you assume it's going to be earned straight line over the course of a year which certainly was the case in 2006 and to some extent in 2005, you know, that kind of created the stabilizing effect. That when you drew down on the cash this year for Avon to fund the pension and most importantly for the capital which doesn't start throwing off income until the Mexican facility is open in the second quarter of next year, you have a distribution shift of earnings where, you know, we were pretty much a quarter, a quarter a quarter, a little bit weighted towards the back half of the year.

I think going forward, but particularly this year, as the cash is drawn down and you're comparing first quarter of this year, to a first quarter of last year that had a full balance at probably the highest rates we've earned over the course of the five year since we've done the convertible you end up with a first quarter and second quarter. And it, together, will probably be about 40 percent of earnings. And a back half of the year which will be about 60 percent. Well, you get stronger as the year goes on not because of any change in seasonality or (sequacity) but really just because of available capacity and the cessation of some of the costs and the absorption issues that you have until you're up and running.

Walt Liptak: OK. Thanks for that. And let me try and just drill into a little bit more. Ken, when you're talking about the cash balances, the flight to quality issues, the 2 million or 4 cents that was over a year time period. Is that correct or is that in the first quarter?

Ken Crawford: That's only in the first quarter, Walt.

Walt Liptak: OK. And then in the first quarter, as well, you're going to have another 2 million related to the (relo) expenses, the planned expansion, et cetera.

Ken Crawford: That's correct.

Walt Liptak: OK. OK, that helps. I've got a few more questions but I'll get back in queue.

Ken Crawford: Sure.

James O'Leary: Thank you.

Operator: We'll take our next question from Holden Lewis of BB&T Capital Markets.

Holden Lewis: Good morning. Thank you.

James O'Leary: Hey, Holden.

Holden Lewis: As, you know, sort of pacing out the Avon business, given that we have one quarter in which to do that, you know, it kind of looks like, you know, your book to build – the orders – the order rate was less than the sales?

The book to build was sort of below one for the first time this year. The backlog was actually somewhat lower, sequentially, anyway. Can you – you kind of reference, I think, some weakness defense can you talk about – you know is defense the entire explanation for that? If you take out defense what do the rest of the markets look like? What is the order rate, the book to build, can you just get some greater color on that?

James O'Leary: Well, yes, I would say defense is down a little bit, particularly in the second half of the year it's down a little bit and it's shifting from programs that are in the process of winding down and shifting into some new programs that are just coming online.

I don't know if this will answer your question nor not, but, you know, we have talked about the fact that our backlog is shifting from shipping out approximately 50 percent in the next subsequent quarter. And we think now that because of the wind component in there it's shipping out more like 40 percent in the next quarter. And wind is becoming a bigger component of our backlog so it's causing that shift.

And so the answer to your question is defense is down a little bit but there's shifting around in the different programs and wind is becoming a more important part. So it's – the backlog is shipping later.

Holden Lewis: Right. OK. Fair enough. But, I mean, the backlog sort of decreased sequentially. I mean in effect, it looks like absent Avon, you know, the orders – the orders didn't replenish as quickly as the sales went out the door. So, obviously, backlog came down. It sounds like defense is down a bit but, I mean, if you sort of look at the business, I guess, the core industrial business, excluding defense, excluding wind, wind very strong, defense is weak, what's the rest of it looking like?

James O'Leary: I think over all it's very strong. But the two things Ken talked about and you alluded to, the biggest issue as it relates to bearings, in particular, is something we talked about in the last call. I hope next quarter will be the next quarter we talk about. But it's a major program we had. It started in 2006, carried forward into 2007 and then tailed off and that was a military order for a legacy program which started to tail off. We have replacement business for that but it doesn't get up and running until the second quarter and that's really the (M wrap) opportunity that we've talked about pretty liberally on our last call and, you know, certainly out on the road.

The second thing which is of significance and it will impact comparisons. And, I think, until you have a normal order flow meaning you're closer to shipping after you take the order, not with this large lag created by when our capacity comes on line, is the lumpiness of the wind orders. We probably had a good quarter or two at the end of last year which, you know, certainly we could take more orders for 2010 and '11 from our customers for wind, but I don't know if that necessarily would make sense, particularly since we don't enter them in until they are 18 months away from shipment. So there are comparability issues.

I think the biggest issue on not just orders but the actual realized results which have been the last two quarters and will be into the first quarters of next year is the major order we talked about in defense which ran down during the back of 2000 – second quarter of 2007 and will be replaced, but won't be replaced until the second quarter as we ramp the program up for (M wrap).

Holden Lewis: OK. And then just lastly, you know, you're – prior to this year, your friction and motion control margins, operating margins were somewhere in the vicinity of 29 percent. You know, this year they came in around 26 percent. You know, as you go into the second half of '08, are you looking more at that 29 percent? Does the fact that Coopers been so strong kind of impair that down so much? I mean how much of the 26 to 29 do we think we begin to recover as you bring this capacity on stream?

James O'Leary: Holden, that was a question someone asked last time. And I think it's a critical question because the 29.3 based on the fourth quarter of 2006 where you had incredible absorption, good quarter, no expansion underway. And, you know, you were probably selling as much of our highest margin really (slim) as you could, that is not a repeatable quarter. I think that was probably the high mark for a while.

We're in the process now of adding major capacity which has margins consistent with our average which we've said before has been in the low to mid 20s. I don't know if the 29.3 is attainable if we want to grow this company.

If we want to leave it as a $400 million sales company it's absolutely attainable. I don't know if that serves us best turning down business that's in the low 20s or in the case of Cooper high teens. I mean those are great margins. It's growing like wildfire. The company has nearly doubled in the last few years. But the reality is the products we sell within the split roller bearing business which many people – many of our if not most of our peers would kill for, are lower than (really slim) that used to attain substantially higher than that.

So to grow the company behind a $400 million sales base, I think we have to accept it. The 29.3 is kind of a high water mark when we were all out capacity in a single quarter. And it's also before something, I think it's been talked about pretty significantly which we will recover with a bit of a lag. But, you know, iron ore is going up. It's being passed along to steel manufacturers. It will be passed along to us. We are doing, I think, heroically to offset it and pass some of it along. We have contractual provisions for some. But that's really overtaken not just ourselves, many of our peers and many other industries that are heavily raw material intensive, only over the last few quarters.

So, I think, 2006 is not an attainable goal but it's also not a goal that could be attained unless you're prepared to sit there at 400 million forever.

Holden Lewis: Yes. I guess your response, you know, begs a different way to ask it is if you're talking about, you know, Cooper growing in – with a 19 percent type margin high – you know, sort of high teens. If you're talking about being willing to take low 20s type business to support the growth, I guess it begs the question is the 26.4 margin that you're seeing this year going to be kind of the high water mark?

James O'Leary: No. Because remember the 26, that number includes a lot of restructuring costs, a lot of unobserved overhead. And as Ken went through, it does include some costs for, in the case of severance, relocation within Sealing products. It includes a host of non reoccurring items which once you run through them by the end of this year get you up to a higher margin but, again, not to 29.2 percent.

Holden Lewis: Got it. OK. Thank you.

Operator: Ian Fleischer your line is open.

Ian Fleischer: Yes, hi, good morning.

James O'Leary: Good morning, Ian.

Ian Fleischer: Just on the wind, you know, you look at that market and obviously, there's a huge bottleneck for the bearings that support that market. And understanding that you have, you know, some contracts, I guess, in place at this point. But at what point, do you get better margins in that business? Meaning at what point does the overriding huge demand and supply imbalance favor you?

James O'Leary: I think we get better margins relative to just the numbers in our own paper today because of the absorption issue and the start up costs. You stop getting them and attaining them by the third and fourth quarter of this year. When you start realizing because of pricing and the supply demand imbalance it's really a customer to customer basis and it will be dictated by the market. For new customers, for smaller orders, for business that we've got capacity for but isn't subject to longer term contract you'll obviously price to the market with some recognition to where you're producing it.

As contracts run out, and obviously we're traded some price for certainty with respect to our longer term contracts, as they run out, again, you look to the market, we may be able to price up. But, I think, it will be dictated by what competitors are doing and we believe largely dictated by how strong the market sector (lead) continues to be. And we believe it will be strong for, at least, the next few years. And as even before, what we're told is 2009 out and, I think, it's probably mid 2009, is largely booked up, irrespective of PTC, irrespective of any legislative changes. Renewable portfolio standards are being enacted, I think, now in 29 to 30 states. Companies are asking for carbon emissions audits and the likes of their suppliers.

So even though we expect the market – you know we know the market will be strong through 2009 forward, there's so much going on that tells us it will be secularly strong beyond that, that we like to think there will be pricing power and there will be things that are favorable to us on a margin basis beyond that. But, you know, that's somewhat of a crystal ball question.

Ian Fleischer: Right. That's helpful. And just my final question it looks like you – it looks like the wind capacity expansion is going better than maybe I expected. It looks like you're going to better than maybe I expected. It looks like you're going to be, mostly, fully online by the end of this year, where, you know, my assumption was more into 2009. Am I right in that assumption that that's going better?

And secondly, with Avon, how much in sales can – can that capacity support?

James O'Leary: I think it's growing consistent with what we've talked about before. If it sounds or feels a little bit better it's probably because of the addition of Avon. And as I mentioned before, some additional capital has been added to other facilities besides Mexico to accommodate wind orders. And by the end of this year, we'll be clicking along at what should be although will not be realized this year a sales basis that supports 115 to 120 for '09.

Ian Fleischer: Thank you.

James O'Leary: You're welcome.

Operator: Our next question comes from Nigel Coe of Deutsche Bank.

Nigel Coe: Thanks, good morning.

James O'Leary: Nigel.

Nigel Coe: Jim, can you maybe talk about, you know, with the cash interest deals coming down to 3 percent and probably going a little bit lower than that, you know, this year, I mean I guess the economics of, you know, (calling back in closed bonds) becomes a little bit easier, can you maybe talk about that? And perhaps, you know, roll into that discussion, you know, what you're seeing on the M&A backlog right now?

James O'Leary: Sure. You know, in – what's going on in the last quarter as it relates on the investment industry investing, you know, particularly for public companies there have been a few pretty high profile disclosures recently. I think, a major drug company wrote off 300 million, a similar issue, much larger scale. Then a bunch of technology companies noted, it was in the "Journal" yesterday where they went through the laundry list of, you know, very significant companies, very high class treasury departments. You know, they're having challenges to the similar to the one that we talked about.

What we've opted to do here is we've probably gotten a little bit more conservative than is absolutely necessary. I'd say it's probably belt and suspenders. It takes about 200 basis points off of what we've earned previously. However, you know, when you look I do believe the acquisition market is change and I'll talk about that momentarily. We have stepped up share repurchase a bit demonstrated this year. But, you know, we're – we've got out toe – maybe a couple of toes in the water and thinking about what to do in May of this year when the convertible comes due.

You know, after sitting with $400 million it's a little over 300 million today as we speak of cash and now the opportunity maybe to see a shift in the M&A market and certainly to address the convertible and maybe some of the dilution that that brought on us, now just doesn't feel like the time to stretch for, you know, even 100 basis points on cash balances which I don't think do much to build the long term value of the company. We've put a lot of that into capacity expansions and to Ian's question a minute ago and what is a securely strong market to grow our capacity. We've done a lot of on terms of international expansion. I've enumerated a few. Those aren't big capital items, but, you know, they do cost money and they're chipping away at the cash balance and, I think, adding long term value to the company.

You know, at some point we either get the right acquisition. We've got one this year. It's the first in several years and the first major bolt on, really ever. And the market is changing. You know, to your question, the pipeline for big potential second legs, I'd still say is a bit weak. And I'd say it's weak because if you don't have to sell a company today why would you? The leverage loan market is still, I would say, seized up a bit. If you're a bag and you've got a lot of leveraged paper all ready whether it's sponsor paper or strategic, you know, you've got enough – I don't hear of a lot of deals getting done.

With that said, I think, sellers are not coming to market with major properties today because you have a whole class of potential buyers in terms of financial sponsors who probably wouldn't participate as robustly otherwise. Now the flip side of that there's no (fore selling). The covenant packages out there are sufficiently favorable to borrowers where, you know, we've only been in this for (three-ish) quarters, two to three quarters. If you don't have to sell, you're not. So the big chunky acquisition which would be a couple hundred million, I still think the guys who might sell properties like that are on the sidelines waiting to see if the market recovers sufficiently that you can bring financial sponsors back into the fray.

There's a lot of strategic stuff. I hear a lot of deals being done among strategics. We are looking – I'll tell you our pipeline is probably more robust with respect to potential bolt ons than it's been in a while. But I'd categorize those as singles and doubles. I would say Avon was a double, maybe a stretch triple. It was a large acquisition. It will be very accretive in '09. It hit all of the parameters for '08. But, obviously, it's a tuck in. It's a major tuck in. The things we're looking at now, I'd say, if Avon was a double stretch triple probably singles and doubles, a couple of things internationally all in the $10 million to $30 million. And things that would bolt on, add value, not meaningfully chip away at the cash balance, but I do think noticeably from an accretion perspective. And then, when May rolls around we consider, you know, what we're doing on the convert. We've stepped up the repurchase program all right. And, you know, it's a really day to day what the price is and what we think our – how we think our forecasts look.

Nigel Coe: OK. That's really helpful. And the second question, you know, wind bearing markets I think that's probably viewed as an OE market. But, you know, we're hearing increasingly that, you know, there's, you know, of course, significant replacement potential with these bearings. I mean have you seen any of that now mainly on installation?

James O'Leary: No, way – way too soon, I think. But I will tell you part of the rational and part of the logical core in Avon is it has, over the course of 20-plus years carved out a unique identity for itself and replacement and refurbishment. We believe, as the wind market matures, and I think, we're talking 2010 out that will uniquely position us or probably keep the Avon name for replacement refurbishment but meld the facility into our existing footprint. But yes, 2010 out we do think there will be a repair refurbishment market.

Avon right now gets some pretty amazing business, but you can't say that wind falls because they repeat but they're hard to forecast, to do major bearings for gun turrets for battleships. You know, we get orders from all over the world for enormous bearings for replacement refurbishment that are very profitable. They kind of come when they come so they're tough to forecast. But my guess is as the wind market matures and as long as it's the heavy equipment market, you know, turrets posted extremely good numbers. It sounds like globally the heavy equipment market is still doing very well. Avon has carved out a very nice identity for itself there. We think the Avon acquisition, not just in repair refurbishment but in heavy equipment continues to position ourselves in markets that will be securely strong at least for the foreseeable future.

Nigel Coe: OK. Great. Thanks.

James O'Leary: You're welcome.

Operator: Our next question comes from Mike Hamilton of RBC Dain.

Mike Hamilton: Good morning.

James O'Leary: Mike.

Mike Hamilton: First recent quarters you've provided wind bookings. I wonder if you could give that for the fourth quarter.

James O'Leary: Ken, do you have that?

Ken Crawford: Yes. I do. In the backlog is about $80 million of wind.

Mike Hamilton: OK. What was bookings in the quarter? Do you have that?

James O'Leary: Do we have that?

Ken Crawford: Yes. About $8 million.

Mike Hamilton: OK. Thanks. I was wondering if you could take a couple of minutes talking about what you're doing in terms of management team as you're building out Far East. Are you where you want to be? What do you see as strengths there?

James O'Leary: Yes. We're not where we want to be because we really just started. We spent a considerable amount of time this past quarter recruiting a fellow to run our filtration office in China which opened this past month. And, you know, we took our time. We spent a fair amount the last quarter hiring exactly the right guy.

And our Kaydon filtration business has an office up and running with the right guy. We believe that approach to having indigenous guys working for us, not going through distribution, will be successful for the types of products we have. Because if you look at Cooper exactly the same model. Pretty much doubled its business and really has driven growth through Far Eastern markets, particularly India and China with having indigenous people working directly for us in wholly owned offices in those markets. So we like to think through – absolutely through Kaydon filtration we'll be able to replicate the success that we've seen at Cooper.

We're doing a very similar thing in India with our Velocity Control business. We gave the go ahead to – it will be under the auspices of our European operation but who has some experience in India. But, you know, similar to the success we've had in Germany, Europe and from Europe into Eastern European markets, we'd expect (Ace) to be able to replicate that India. It won't happen over night but will happen, we believe in the next few years and few is not five. It's probably closer to one or two.

And that same model we're really applying across each one of our businesses. We do have good distribution but we don't know if we're getting all we should within the principle Kaydon bearings business. We've got great distribution. But there's still some opportunity within (Purefill), you know, particular in India, China and Russia, but that's a very international business to begin with. We do think it can be more. So, I mean, that's kind of the business by business landscape.

I think the shorter answer to your question is, we're doing it judiciously. We've accelerated it considerably in the last two quarters. And we think we're finding the right guys. But, you know, we want to make sure we get the right guys in every business because they're going to be standalone direct employees and responsible for growing what we think is a significant opportunity for Kaydon across the board.

Mike Hamilton: Thanks. And final question, could you comment a little bit on outlook for raw material over the next couple of quarters?

James O'Leary: It is up. Now it is not going to be up – I think if you saw the agreement between the Japanese and Korean iron ore producers to the steel industry, I think, they agreed on a 65 percent increase in iron ore. Steel manufacturers have been passing some of that alone which, of course, makes it into our product.

You know, we expect there to be some margin contraction because of that. We have built that into our forecast all ready, Mike. But I don't know if I'm any smarter than if you go through the list of guys that have talked about it, including guys, I guess, (KF) and (Timkin) and, you know, other guys that are heavily sensitive to raw material, particularly steel, you know, we're expecting some contraction. We're working on passing it through. We've got best practice efforts and purchasing efforts to minimize that. But right now, today, I don't now if I'm any smarter than, you know, some contraction. Is it 100 basis points? It could be around there. We've baked that into our forecast all ready. But we're no smarter than the market. We will see where that goes over the next few quarters.

I don't think it's 65 percent but it's certainly more than we've seen in recent years.

Mike Hamilton: Yes, thanks for the help, Jim.

James O'Leary: You're welcome, Mike. Thank you.

Operator: And our next question comes from Steve Barger of Keybanc Capital.

Steve Barger: Good morning.

James O'Leary: Hi, Steve.

Steve Barger: Hey, I've been jumping back and forth between another call so tell me if this has been covered.

James O'Leary: Jumping back – you think another call is as important as ours?

Steve Barger: Well, not nearly that's why I'm back on this one.

James O'Leary: All right, there you go.

Steve Barger: But the market share build out for India and China, I know you're really in the process of that, but can you talk about the size of the market opportunity that you see maybe as we go into 2009 and how you think about margin differentials in those new markets versus what you get in the U.S.?

James O'Leary: That has not been asked anyway. When we're talking about India and China and where we are now, you know, Cooper the margins are consistent. We expect the Velocity Controls business the margins to be consistent. We're early enough now to be able to build out business plans on them.

I think the question you're asking because I know we've talked about it is, if we were to do a big green field for the principle bearings business particularly in large diameter bearings, we're not that far along yet. We can tell you the market is, at least, as big, or potentially bigger as certainly the U.S. And, you know, the opportunity right now, in Europe for us is somewhat limited because they're incumbent since it's a more mature market. There is pricing in margins.

I think the only thing I can tell you is we wouldn't do it if it's substantially diluted what we think the kind of low 20s, mid 20 watershed is, you know, not looking at the 29.2 from the fourth quarter but what we think the normalized level is. We wouldn't do it if it wasn't that good but there's nothing that tells us it won't be.

Steve Barger: Right. I mean global capacity is up to the demand in the structural wind tower bearing business, right. So presumably, you shouldn't have to take a significant haircut on margin.

James O'Leary: I don't think you would. Because if you had sufficient demand to justify the capital you'd have to be looking at an Indian market and a Chinese market that are going to continue to devote resources to renewable energy at an accelerating rate w hen you look at the fact that, you know, these are newly industrialized economies growing like wildfire. I mean they talk about a slow down as being high single digits to 10 percent growth. You know, if they're going to invest in renewable sources and address some of the environmental and the economic knock on effects of the environmental issues you have to believe that it's going to be an incredible strong market for the foreseeable future. And we'll justify products like ours there.

Steve Barger: OK. Next, I know you talked about steel prices a little bit in the prior question but are there any supply chain issues which are effecting you right now?

And can you – or have you given us an update in terms of end market demand in power gen or petroleum and heavy industrial, general engineering, just kind of your good industrial end markets?

James O'Leary: Sure. On the first question, there are still some component issues. It's largely in forgings and outsourced steel. And again, it's the downside of good times. Things are so good that you have people competing for products that we outsource in some cases. And they're getting better, but I wouldn't say it's completely better. They still are a source of constant breath holding at the end of each month and the end of a quarter.

As it relates to end market, wind is obviously great. Ken just gave you 8 million added to the book. Assume that impacted the comparisons to the fourth quarter of last year where I think we took in more than eight. You know, that market is healthy. It's extraordinarily strong. If we had the capacity online we could take whatever orders, probably, we choose. And because they come on, kind of in lumpy fashion and within the construct of long term contracts, I think you begin to lose the relevance of a quarter on comparison with that product, in particular. But wind energy market is incredibly strong.

Heavy equipment is incredibly strong. We will expect that to be much better with the addition of Avon. And, you know, I think, part of our being down year-over-year probably has to do with us allocating capacity to wind. Where we are right now, heavy equipment used to be included with wind, as we looked at it. This year we broke apart wind and heavy equipment ex wind separately. But heavy equipment a reference to the (tariff) numbers. You know, all of the major heavy equipment guys globally are still talking about strong years into '09, at least. And if nothing, you know, when you look at the agricultural market which drives some of them, the heavy crane market, certainly (tariffs) again keeping them out of ((inaudible)). You know, it still sounds like it's pretty good.

Medical technology, very strong. I think we had a self inflicted issue that we talked about in the previous quarter. You know that's gotten better. We've got the qualifications. We're expecting good business there this year. The only one that is noticeably soft, and I'd say that's semiconductor which we're down, I think, the market is down as well.

You know, across the rest of the business lines, I'd say strong, not strengthening. I do think – I would say the cautionary note which I hate to the end call on but the cautionary note is, you know, at once, book and ship business it happens within a quarter, it's something that, you know, we don't have enough information today to say, you know, let's slow down a bit. But that's where if people talk themselves into a recession you'd start to see it. Our backlog is obviously strong. Our orders, our contracts within wind energy are strong. But if people start to delay orders particularly on the book and ship business you'd start to see that. And we'd probably in a position to talk about it at the end of this quarter and into the second.

But, you know, what, on any given day whether people are talking themselves into a slowdown or not, you know, it seems to fluctuate wildly.

Steve Barger: Right.

James O'Leary: So we've had a couple of good days. You know, people are talking, you know, a couple of good days in the market. I think once the credit issues and some of the credit contraction things which interestingly are impacting us in the unexpected fashion just in how we deploy the cash, look that's a transitory issue. Our preference is to deploy the cash into organic growth, acquisition growth and as a fail safe return to shareholders. So the fact that we're running a little bit less on the cash doesn't trouble us because we should have better places to put the money.

Steve Barger: Understood. Thanks very much.

James O'Leary: You're welcome, Steve. Thank you.

Operator: And our last question today is a follow up from Walt Liptak of Barrington.

Walt Liptak: All right, thanks. OK. I get the last one. I'll make it an easy one.

James O'Leary: Well, when you're gentlemanly enough to get on the line again rather than just force a question in, we always take it.

Walt Liptak: All right. The (M wrap) opportunity for this year is that in backlog all ready?

James O'Leary: Yes, some of it is. That ramps up during the year. I think it starts off in the second quarter. You know, there's been a lot written about (M wrap). Is it as good as it was three months ago in the wild speculation? Probably not. Is it better than it was six months ago? Probably. Right now, we've got a good year's worth of orders. We're not sure where 2009 ends up. It's probably not as hot as probably six months ago when the real robust frothy forecast we put out there. But some of it is in backlog. We start going on that in the middle of this year. And we haven't – I don't know if we're smart enough to know yet where, exactly, the government spending will go in '09 and forward.

Walt Liptak: OK. I wonder so how much is in backlog in dollars?

James O'Leary: We don't want to comment on that, Walt.

Walt Liptak: OK. And have you started producing these to inventory because you know you're going to ship them or you don't start producing them until the second quarter?

James O'Leary: I believe it starts in the second quarter.

Walt Liptak: OK.

James O'Leary: But don't quote me on that, but I don't know how you could.

Walt Liptak: OK. All right. Thanks, guys.

James O'Leary: OK. Thanks, Walt.

Operator: And there are no more questions at this time.

James O'Leary: OK. I'd like to thank you all for taking the time to joins us today. As always, we're available if you have follow up questions. But, again, thanks to all of the Kaydon employees for this year and thank you all for your patience and support.

Have a nice afternoon.

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