

KAYDON CORPORATION

Moderator: James O'Leary
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10:00 a.m. CT

Operator: Welcome to the Kaydon Corporation third quarter 2008 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.

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 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 2007 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 refer to free cash flow, a non-GAAP measure. To assist you in understanding this non-GAAP measure, as well as, to comply with SEC requirements, the Company has included in its press release a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure. 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.

James O'Leary: Thanks a lot, Rick. Good morning and thank you all for joining us today.

I am joined by Ken Crawford, our CFO and Corporate Controller; and Peter DeChants, our SVP of Corporate Development and Corporate Treasurer.

We are here to review our third quarter, which I would term as solid relative to prior year given the challenges that unfolded in an accelerating pace as the quarter progressed. Note, I said solid, this was a disappointing and a challenging quarter. While the quarter was less robust than we previously had been working towards, we did set third quarter records for orders, sales and quarter end backlog as many of our longer-term initiatives focused on making Kaydon less economically cyclical, have largely played out as expected.

Also, while only modestly higher than last year on an operating basis, we did achieve a level of third quarter operating profits on a par with the highest level attained in the past decade, despite the significant economic headwinds it strengthened as the quarter progressed. Our EPS in absolute terms was lower primarily due to the meaningful drop in interest rates as we have invested to protect principle, not chase yield. We are earning about one percent or less now on outstanding investable balances.

Sales increased to a third quarter record of \$126.8 million versus \$107.4 in the prior third quarter. During the quarter diluted EPS equaled 50 cents compared to the 54 cents in the prior quarter, and again the principle difference in absolute EPS this year relative to last year was lower interest income earned.

We had record order entry of \$157.3 million in the third quarter, up 34.2 percent year-over-year and the second-highest quarter in the company's history, leaving us with quarter end backlog of \$354.5 million, almost 70 percent above the prior year's level.

Total wind orders booked in the quarter were \$52.2 million, bringing year-to-date wind orders to \$157.7 million. We will talk in a moment about next quarter expectations for all orders, particularly in the wind business, but needless to say we are pleased with the continued strength in this strategically important business.

Gross profit for the quarter was \$44.5 million or 35.1 percent of sales as compared to \$43.3 million or 40.3 percent of sales during last year's third quarter. Gross margin was significantly affected by changes in product mix and sales of higher margin product segments, particularly those served by our industrial distribution channels in North America and for export overseas both dropped below prior quarter and prior year levels for the first time in recent quarters.

Similarly, the unexpected, excuse me, the expected unabsorbed overhead associated with our wind energy ramp up has impacted gross margins. This unabsorbed overhead should dissipate meaningfully in the fourth quarter and then into 2009.

Selling, general and administrative expenses were \$19.8 million or 15.6 percent of sales during the third quarter as compared to \$18.8 million or 17.5 percent of sales in the third quarter of 2007, as we focused on controlling variable costs that need not be incurred when profitability drops.

Operating income for the third quarter equaled \$24.8 million as compared to \$24.5 million in the prior year's third quarter. Operating margin was 19.5 percent as compared to 22.8 percent last year. Operating margins again were impacted principally by product mix shift in our friction control product segment, the expected unabsorbed overhead associated with our wind energy ramp up and lower volume in our sealing product segment. We will discuss each of these momentarily.

Interest income declined 68 percent from the 4.8, excuse me, the \$4.8 million earned during the third quarter of 2007 to \$1.5 million this quarter. The drop was due to lower rates earned on lower investable balances.

Rates have declined about 300 basis points year-over-year due to lower market rates and the impact of steps taken by us to preserve capital and liquidity, rather than pursue higher short-term yields.

Also, as we put cash to work in areas such as wind the energy capital expansion and the Avon acquisition, we are seeing the short-term impact of turning investment income into operating earnings. It will contribute more meaningfully in future quarters as the capacity comes online and the purchase accounting amortization drops off.

The effective tax rate during the third quarter was 34.4 percent as compared to 36 percent in the prior year's third quarter. We expect the effective rate – full year of 2008 to be about 35.1 percent. Ken will discuss this in a bit more detail momentarily.

Net income for the third quarter equaled \$16.3 million as compared to \$17.1 million last year, while diluted earnings per share equaled 50 cents again as compared to 54 cents in the prior year's third quarter.

Now let's talk a little bit about segment operating performance starting with friction control products. Sales increased \$19.2 million to \$79.3 million or 32 percent when compared to prior year's third quarter. As we saw higher demand for specialty bearings utilized in the wind energy and heavy equipment markets and the inclusion of Avon Bearings. Sales of split roller bearings also remained strong during the quarter.

Third quarter 2008 operating income of friction control products increased \$15.9 million, a 6.3 percent increase compared with \$15 million in the prior year, driven largely by the increased volume.

However, operating margins declined to 20.1 percent from 25 percent earned in the prior year due to product mix shifts and absolute declines in sales to certain higher-margin end markets, as end markets in particular North American distribution and for export weakened as the quarter progressed.

Growth in higher-margin but lower than historical segment average margin, wind energy and split roller bearing products and absolute declines in book and ship orders and the higher-margin distribution channels in North America and for export overseas resulted in most of the margin decline.

Also, higher operating and raw material cost increases originating in prior quarters have negatively impacted turn period margins. We expect this to improve prospectively as ongoing remediation steps to take advantage of the recent corrections in commodity pricing already underway gain traction in future quarters.

Looking forward, we expect wind energy revenues during 2008 to approximate \$90 million, which compares to \$32.8 million in 2007. For the first nine months of 2008 wind energy revenues have totaled \$56.4 million as compared to \$19.5 million for the first nine months of last year.

The growth in this business reflects the potential of the wind energy market for Kaydon as the investments we've made over the past year have come to fruition even as other parts of the business may slow.

Order of friction control products for the third quarter totaled \$111.7 million, an increase of 55.3 percent over the prior year's third quarter, resulting in record quarter end backlog of \$304.3 million.

In velocity control products third quarter sales totaled \$17.1 million, an increase of 3.5 percent over the prior year's third quarter. Shipments from our North American operations were lower however, than the prior year's third quarter as we experienced notably stronger economic headwinds in the domestic business as the quarter progressed.

Growth in our European operations continued at a lower rate than in recent quarters and with a lower benefit from changes in the foreign exchange rate than we've experienced in past quarters as the significant dollar strengthening progressed during the quarter.

Operating income equals \$4.5 million equal to the prior year's third quarter, and operating margin was 26.3 percent slightly lower than the 27.1 percent earned in the prior year's third quarter.

Third quarter orders totaled \$16 million as compared to \$16.5 million in the prior year with backlog improving by 2.1 percent over the prior year's third quarter.

Turning to sealing products, sales of sealing products were \$10.8 million compared to \$12 million in the third quarter of 2007. Shipments of sealing products declined as incoming orders softened and efficiency issues associated with an ongoing facility move impacted execution.

Operating income declined due to lower volume, unfavorable overhead absorption and inefficiencies associated with the facility. The company recently appointed new leadership within this business to evaluate the overall capacity and configuration of the operations in the current environment as business has softened during the quarter. Orders in the third quarter totaled \$8.2 million, a decline of 16.6 percent as compared to 2007.

Finally, in our other businesses segment, sales of the company's remaining businesses equaled \$19.7 million during the third quarter of 2008, an increase of \$800,000 from the third quarter of 2007, resulting from higher demand for liquid filtration products and higher pricing from metal alloy products.

Operating income was \$1.8 million compared to \$2.2 million in the prior year's third quarter. The lower profits were largely associated with costs to exit a multi-employer pension plan and to a lesser extent higher operating costs.

Order entry overall during the third quarter was strong. We achieved a record of \$157.3 million, a 34.2 percent increase over the third quarter of 2007. The strong order activity resulted in record backlog of \$354.5 million, an increase of 67.7 percent as compared to the prior year.

Our backlog consists of orders shippable during the next six quarters and as we've discussed in previous quarters our large wind energy orders will ship later and have been shipping later than our large non-wind orders, largely due to wind capacity comes online.

As a result, these orders have continued to shift the timing of when our total backlog is expected to ship. Right now we expect to ship approximately 30 to 35 percent of our backlog in the upcoming quarter, approximately 35 to 40 percent over the next two quarters and the final 30 percent over the final three subsequent quarters.

Also, a few words when thinking about order entry for the fourth quarter, particularly as it relates to wind energy. With much of our near-term plant capacity in wind energy booked and already reported in backlog, you will see a drop in new wind orders next quarter. This is not due to any weakness in the business but the timing and the lumpiness inherent in how our customers place and how we recognize these orders with our 18 month policy.

Now, I'll turn it over to Ken, to cover some additional financial items.

Ken Crawford: Thank you, Jim and good morning everyone. During the third quarter of 2008, we earned 2.2 percent on average investable balances of \$269.2 million. Interest income totaled \$1.5 million in this year's third quarter. During the third quarter last year we earned 5.2 percent on average investable balances of \$362.5 million, which generated 4.8 million in interest income.

The lower average investable balances compared to the prior third quarter resulted from the effects of capital expenditures to support our capacity expansion projects, the Avon acquisition, our third quarter 2007 pension contribution and our stock repurchase actions.

The lower interest rates were caused by lower rates available in the market and by proactive steps by the company to protect principle and liquidity. Interest income is also down sequentially as during this year's second quarter we earn 2.4 percent on average investable balances of \$282 million.

As we had noted during our previous conference call, the lower average interest rate and the lower average investable balances reduced third quarter 2008 interest income by \$3.2 million, equivalent to \$0.06 per share on a diluted basis, compared with the third quarter of 2007.

At the end of the third quarter this year, our investable balances totaled \$270.8 million, which is \$79.6 million lower than at this time in 2007. The lower interest rates and the lower average

investable balances will reduce interest income in this year's fourth quarter by at least \$3.3 million compared to the fourth quarter of 2007. That is also equivalent to \$0.06 per share on a diluted basis. We expect interest income for the full year 2008 to be approximately \$5.8 million as compared to 18.1 million in 2007.

During the third quarter of last year a portion of our investments included certain issues of asset backed commercial paper and federally insured auction rate securities to achieve higher yields. We achieved those higher yields and then successfully exited those investments before the asset backed paper and auction rate securities markets collapsed.

At September 27, 2008, we hold an \$8 million position in an enhanced cash fund being liquidated by the fund issuer. The fund continues to pay interest and we received principal during this year's third quarter totaling \$3.4 million. We recorded a net loss of \$100,000 as a reduction to interest income in the third quarter and an additional \$250,000 early in the fourth quarter as credit markets – credit market conditions have caused the value of this investment to continue to decline.

Our cash and cash equivalent investments today are principally in money market funds that invest solely in short-term treasury securities. This provides the highest level of safety available, although the returns currently are in the range of one percent. That said we believe our financial resources will provide us 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 this year's third quarter totaled \$1.4 million compared to interest expense of 2.4 million in the third quarter of 2007. The reduced interest expense was due to note holders converting the remaining outstanding 188.5 million of our contingent convertible notes into roughly 6.5 million shares of company common stock during this quarter. The conversion of the

notes and the related reduction in interest expense had no impact on diluted earnings per share due to the accounting treatment of the underlying convertible debt instrument.

The effective tax rate during this year's third quarter decreased to 34.4 percent compared to 36.1 percent in the prior third quarter primarily due to a reduction in the provision for state taxes and favorable differences in income taxes on foreign earnings in 2008. The company currently expects the effective tax rate for full year 2008 to equal 35.1 percent.

Net income for the third quarter was \$16.3 million or \$0.50 per share on a diluted basis compared to third quarter 2007 net income of 17.1 million or \$0.54 per share on a diluted basis. Free cash flow during the third quarter of 2008 was \$7.8 million compared to a net cash outflow of 6.7 million in the prior third quarter. This swing was due primarily to the absence of the large third quarter 2007 funding of our qualified pension plans.

During the third quarter of this year we invested 15.9 million in capital expenditures which compares to 16.8 million invested in the third quarter last year. Capital expenditures will remain at high levels in the near term, as we expand to take advantage of the outstanding secular growth opportunity in wind energy.

Again, free cash flow should be viewed as supplemental data rather than as a substitute or alternative to the GAAP measure. We've included in our earnings release a reconciliation of this metric to the most comparable GAAP measure for your reference.

Cash and cash equivalents plus short term investments total 262.7 million at the end of the third quarter 2008 compared to 287 million at the end of 2007. During the third quarter of this year all of our outstanding long-term debt was converted into common stock of the company. The company has no outstanding debt a September 27, 2008 compared to 188.5 million at the beginning of the third quarter and 200 million at the end of 2007.

During the third quarter, we paid dividends of \$4.1 million or \$0.15 per share. We repurchased 196,100 shares of common stock for \$9.8 million and we invested 15.9 million in net capital expenditures.

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

James O'Leary: Thank you, Ken. Looking at the past quarter, I would say we were comfortable but clearly not happy with the results achieved, as we took what was available in the market and in an economy that grew more challenging as the quarter progressed.

That being said, we are pleased with the progress on our longer-term growth initiatives, particularly the expansion of the large diameter bearing market which continues to experience secular strength. This should continue to yield benefits as we move into the fourth quarter of 2008 and into 2009.

Now, when we look at our various end markets there is a very wide range around their relative strengths in a very uncertain economy. Wind energy continues to be a very good market for the company and will be a significant growth engine for the company as our wind capacity expansion is on track and comes online, particularly in the next two quarters. Heavy equipment is also currently solid as is our split roller bearing business.

At the other extreme, semiconductor continues to suffer with a decline in sales during the third quarter and our North American general industrial markets grew increasingly challenged, since the end of last quarter when we first discussed these issues. In particular, our book and ship business which occurs intra quarter and often goes to or through distribution, dropped below both the prior quarter and the prior year's levels for the first time in several quarters.

The near-term outlook for the domestic and international economies has weakened. As most of us have seen in recent weeks and months stock markets, credit markets, commodity markets and foreign exchange markets have undergone rapid and unprecedented change, which has resulted in caution by Kaydon, our customers and the ultimate end-users.

All that being said we are well-positioned to weather these storms. Demand in wind energy remains strong. Earlier this month the President signed legislation that extended the federal tax credits for renewable energy, including wind and both presidential candidates have indicated their support for longer-term investments in renewable energy.

Our strong backlog positions us well for the fourth quarter and beyond and our strategic investment in servicing the wind energy infrastructure market highlights our businesses potential in this market. Together with the strength of our balance sheet we are well-positioned to take full advantage of opportunities to further build on the foundation in place. In addition, we expect to be able to prudently return capital to our shareholders in the form of both share repurchases and periodically increased dividends while driving profitable organic growth.

And as a testament to our confidence, our Board of Directors declared a quarterly dividend of \$0.17 per share for the fourth quarter with an indicated annual dividend of \$0.68 per share.

Finally, I'd like to thank each of our Kaydon employees for their efforts this quarter and prospectively for their efforts in delivering strong performance in what is an increasingly challenging period ahead of us.

That concludes the formal presentation. Richelle, we would be glad to take any calls.

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 on your touchtone phone. 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.

And we'll take our first question from Mike Hamilton with RBC.

Mike Hamilton: Good morning.

James O'Leary: Hi.

Ken Crawford: Good morning.

Mike Hamilton: Was wondering, if you could give us a feel to the degree you've got one on customer status and what they are finding on funding out wind projects. Obviously, a lot of these are fairly small operators at the end side where credit availability becomes an issue here.

James O'Leary: There has been a tremendous amount written about that, particularly in the last week or so. We have yet to see it in our order book. And at the present a lot of that is just speculation.

We do know that project to go past what's currently been committed 2011 and forward, has been a bit suspect. I don't know if you recall last quarter we talked about a possible capacity expansion beyond what we've done, but we also said we would only do that with firm customer commitments and long-term supply agreement similar to what we have now for certain of our customers.

Mike I think that the financing issues, the general economic uncertainty, the political environment and while I did note that the PTC got renewed, it got renewed for another year which is not optimal and is certainly not what the wind energy industry had been lobbying for, so I think for

projects to go much beyond the current horizon and the projects that we had talked about in the previous conference call there is a lot of uncertainty about that.

As far as nearer term projects we have yet to see anything that directly impacts us, but we are in the process of going through a business planning process now as we speak. We are going back to every customer, going through every contract and trying to get a better understanding if there is anything like that. But right now nothing we are aware of.

Mike Hamilton: Then as a follow-up, Jim, what are you looking at on fourth quarter CapEx based on what your roll forward plan is?

James O'Leary: Relatively unchanged, but Ken, give that –

Ken Crawford: Yeah, we are looking at about 25 million of CapEx in Q4, which would bring our total to little bit more than 70 million this year.

Mike Hamilton: Thank you, gentlemen. That's it for me.

James O'Leary: OK. Thank you, Mike.

Operator: So next we'll move to Richard Marshall, Longbow Research.

Richard Marshall: Good morning.

Ken Crawford: Good morning.

James O'Leary: Hello Richie.

Richard Marshall: Hi a couple more wind questions for you. You maintained the forecast of 90 million for this year. Is 160 million still the number for '09, and is there a 2010 number yet?

James O'Leary: Well, there is definitely not a 2010 number, and we are going through as I just mentioned to the previous caller, Mike, that we are going through the next year forecast. And right now I think the variables around that number would be raw material price increases, which go up and down, would potentially impact that number. And as I mentioned we are going through customer-like-customer, contract-by-contract. So we'll be a lot smarter about that in the next call if not sooner.

Richard Marshall: Ok, great. And along the same lines, I mean are you seeing any delays of current orders any cancellations? I mean we hear as you kind of refer to some issues with Gamesa, Suzlon and so forth. Any delays of orders that you are seeing?

James O'Leary: Within wind any delays we have seen is where people over ordered in aggregate not just from us or from others and we were able to supply others who wanted demand. So I wouldn't say within the wind energy business yet, although we have moved demand around within a pretty robust order book. And again, that's as of today. Things have been changing so quickly, the two guys you cited in particular Gamesa and Suzlon we have not seen any material issues with them but we are respectful. I read the same papers you guys do.

In other areas of the business – you didn't ask about this, but I do think its prudent to mention it you know in a couple of areas particularly in heavy equipment and in other smaller orders, we have had a couple people come back and want to push orders out to the right a bit, not cancel. But as they are going through their business planning process, they don't want to over order or take things that could potentially go into inventory prematurely; so we have seen a few things pushed to the right.

Nothing material but you know what, it's kind of early. We are hopeful that as the credit markets improve as and the general backdrop makes people feel better and as people get through again their own business planning processes we have greater visibility on that. But you know we have seen some push-outs in other parts of the business.

Richard Marshall: Are you seeing any pushback on price in the wind business?

James O'Leary: Well you know most of that's by LTA. So where I mentioned before the (116), the variability it's higher or lower base on raw material pass-throughs that are contractually committed to. So the answer would be no, but you know its kind of fixed by contract and PO, and most of those are set now.

Richard Marshall: And just the last thing, what was the – what were the sales from Avon this quarter, Avon Bearings?

James O'Leary: Richard, given this year for the last quarter ever.

Richard Marshall: OK.

James O'Leary: It is no longer part of the concert. Ken, do you have that?

Ken Crawford: Yeah, we completed what I will call the Kaydon-ization of Avon during the third quarter.

We moved some machines around and laid that plan out as our other large diameter bearing plants are. So sales were down in the third quarter for that acquisition to about 5.5 million, but we expect to still achieve the \$30 million in sales that we've talked about on previous calls.

Richard Marshall: OK. So the 30 million number for '09 is what we would be looking at or.

Ken Crawford: \$30 million was for '08.

Richard Marshall: I understand. Would that be going up materially in '09 or is that pretty close to the same number?

James O'Leary: Going forward, and I think what Ken mentioned the Kaydon-ization of Avon, right now Avon is really being geared up to devote to repair, refurbishment, heavy equipment and a couple of key wind energy businesses. Most of, in fact some of their wind energy business has been moved to or assimilated by other Kaydon plants. So there really won't be a fiscal '09 comparable for that business. It's fully assimilated into Kaydon. And right now part of the production that Avon on a standalone basis would have planned in their third quarter isn't absorbed into other Kaydon plants. So it gets to be a less relevant in comparison going forward.

Richard Marshall: OK. Great. Thank you very much.

Operator: Peter Thompson with Coho Partners will have the next question.

Peter Thompson: Good morning can I just ask you what your wind revenues actually were this quarter?

Ken Crawford: Well we gave this quarter 21.5 million.

Peter Thompson: Twenty-one point five million and can you tell me what the wind is now in your order backlog?

Ken Crawford: One hundred and eighty-two million.

Peter Thompson: And did you give the order entry for wind this quarter?

Ken Crawford: We did 52.2 million.

Peter Thompson: OK. Great and just are you seeing deals now that I guess the real question is just kind of capital allocation. Obviously share repurchase in this quarter was done at meaningfully higher levels as most companies were trading significantly higher. But now as you are kind of looking at your kind of your capital resources are you changing your balance at all between deal desire or share repurchase at these levels?

James O'Leary: You know you'll get a different answer almost every other day you ask that question right now. But let me give you the parameters and the way we are looking at that. And it's I think the right framework against which to evaluate that decision. And by the way, the share repurchase – we slowed that down and before we went to our closed period. We pulled back on share repurchase a bit, not because we didn't think the shares were and irrespective of where the price is on a given day of fundamental long-term value – but we slowed it down a bit because the acquisition market had got considerably better.

I'd say there was more volume. I think there were more realistic sellers. I think there were more deals that are, were and may still be potentially actionable. Then I think I've seen certainly in 18 months here at Kaydon or 18 plus months and from being on the Board I think several years.

The challenge now and a lot of this unfolded probably the beginning of this quarter, the middle of the quarter is with the credit market seizing up the way they have and with industrial pricing obviously reflecting on our own stock price going down to the extent it has you know what sellers are willing to do and what buyers can do without credit support is going to be a question to be answered.

Right now again we are still looking at and working hard on deals, which I think would be good for the long-term value of Kaydon. But we also appreciate the fact that our stock price is down meaningfully.

Any acquisition we would look at would have to be evaluated in comparison to what we think our fundamental value is and what the market is offering us. So really that equation changes everyday. The next two or three – I'd say probably the next four weeks will tell you whether or not there is going to be a real market for acquisitions as the rubber hits the road on will sellers take, prices that reflect today's environment? And will there be a financing market for things that have any significant size.

So one of the better markets I've seen in a while really got turned upside down by the financing conditions as the banks pulled back dramatically. And I think sellers now have a tougher decision they might have had when companies like Kaydon and our industrial peers were trading at two or three turns of EBITDA higher.

Peter Thompson: I really appreciate the thought process on that a lot.

James O'Leary: Hopefully its helpful, but honestly it does change every day.

Peter Thompson: That's very helpful. Listen just I don't have my note in front of me, here but you'd also remember what wind revenues were in the second quarter, Ken, just out of curiosity?

Ken Crawford: Nineteen point three.

Peter Thompson: Thanks so much. Good luck.

Operator: So next we'll move to Walter Liptak with Barrington Research.

Walter Liptak: Thanks good morning guys.

James O'Leary: Good morning

Walter Liptak: OK. So you did 19.3 in the second quarter, so your wind deliveries were up a couple million. Were you expecting to have – you mentioned under absorption in the wind power operations. Were you expecting to have more sales shipped in the third quarter?

James O'Leary: I think that was a planned, it was kind of a discussion where we've had expected the third quarter not just for seasonal purposes but the third quarter was always going to be a bit weaker than the fourth quarter as far as general overhead absorption because next quarter is when we really start shipping.

Quantifying that any number we give you would be so fraught with assumptions and what ifs, that is it 100 basis points probably less; but it is meaningful.

Walter Liptak: OK. So it might be a 100 basis points for operating margin that you were under absorbed this quarter that you might get back next quarter?

James O'Leary: Probably less, but it is something in that order of magnitude.

Walter Liptak: OK. I wonder if I can get the Avon orders this quarter. This will be the last time I ask it.

James O'Leary: Five point five million also.

Walter Liptak: OK. So it looks like your non wind orders ex-Avon were down 10 percent, 15 percent, year-over-year. Is that all attributable – you mentioned those two things. That's the magnitude of the drop in industrial distribution and export et cetera?

James O'Leary: Non-wind orders this quarter were about 105 million and I just said 5.5 of that was Avon. So that's about 100 million and the third quarter of last year non wind orders were 99.8 million. So just about...

Walter Liptak: OK. Yeah, there must be something wrong with my math. Ok, that is not as bad as I thought.

Ken Crawford: We are pretty much on a little less than one-to-one book-to-bill pretty much across the board. It's a bit less this quarter than it had been previously, but nothing that is that precipitous drop. The biggest issue Walt and this is pretty much across the friction control segment has been mixed.

You know we are replacing wind and heavy equipment, which are strong and we had capacity for and we are having capacity come online in wind energy. But the drop-off in what is by far our more profitable business to industrial distribution for export and even within business lines within military we had a better quarter than we expected last time out.

We are ahead of last year for the nine months, but the shift from what was earlier in the year and last year's strokeable races, a legacy program that has been phenomenally successful for us in '05 and '06 and the beginning of 2007.

And we've talked a little bit about but we are starting to see it within the military aerospace piece. What we are basically shipping to as far as helicopter swash plates and the like, dropped off. It was replaced by MRAP. It was replaced by vehicle and other products, but the margins are

different. So it was mix more than volume this past quarter. But volume did drop off, especially towards the back half of the quarter.

Walt Liptak: OK. Given the distribution drop-off and that higher-margin product, is it an inventory correction or is it – probably a lot of it is I would think, in demand. How do you view what happened in the distribution channel?

Ken Crawford: I mean, I think our customers are trying to give us the best information they have in a market that's changing very quickly. I think when we first talked about this we were one of the – I am not taking credit by the way because I'm not happy about it – but when we first talked about at the end of last quarter, I think I said it was an inventory correction or our initial guidance was, our customers are still showing end market sales that were good in that segment.

And that would be guys like Motion Command, AIT they were still showing decent sales, but they had tightened up on inventories and were probably taking in inventory and less of our product. There have been a couple press releases, one yesterday as well from one of those fellas, that said they've not only tightened up on inventories where our levels to them are down and I think as I mentioned before were down year-over-year and year compared to sequential quarter.

Not only are they down there, they are starting to see weakness in the end market. So I think it is migrated a bit to, absolute end-user demand and whether it exacerbates from there, I think it's going to be dependent on the general state of the economy.

Walt Liptak: Yeah. Got it. OK. All right. Thanks, guys.

Ken Crawford: You're welcome, Walt. Thank you.

Operator: And next we'll move to Steve Barger with KeyBanc Capital Markets.

Steve Barger: Good morning.

Ken Crawford: Good morning.

Steve Barger: This is going to be a tough question because there is no formal guidance out there but can you help us to categorize.

Ken Crawford: OK. Then let's go over to next question.

Steve Barger: Well, I'm just trying to categories that \$0.10 swing between what the Street thought and what the actual results were relative to the volume declines you talked about, the slower material cost recovery, unabsorbed overhead FX. Maybe just help us kind of think about what the differences were?

James O'Leary: OK. Anyway, and by the way that's not, I don't think that's out of school because we did give some general parameters earlier in the year when things were going great guns. I think almost, if you took a couple of discrete buckets, you would come to easily the \$0.10, probably more because as I said, we did do a little bit better in certain areas, the military, MRAP didn't drop off the way we thought. I don't think wind was better, but we did have a couple areas that were a little bit better maybe than had been anticipated.

Currency and this I don't because we don't have guidance, I don't look as closely as maybe I should have than what you fellas have for your currency translation benefits, but the pound and the euro translation had to have been a couple pennies. Is it two or three, it's probably in that ballpark, but not much lower than two or three.

And the raw material pricing increases we signaled it a bit last quarter. They kind of caught up on us. It has been probably several – a couple of hundred basis points on a cumulative basis, much of which we have been getting back. And now, I just don't think we have the environment to get it back. Is that another one third of the \$0.10? Possibly, I think that is going to be one that is recoverable faster than in prior cycles.

And I think we will get it back faster than we've actually been hit by it just because it has been so severe and it is so top of mind. That's one of the principle discussions we will be having over the next couple weeks with our companies when they come in for their budget meetings or we go out to see them.

So it's another one third to 40 percent of it. I tell you that's probably a fair guess but remember some of the pass-throughs we've had on the upside as far as raw material pass-throughs we only do the quarter after.

And the increase in raw materials and the decrease and really precipitous drop has happened so quickly, we will probably a quarter into where we raise, but then we will be dropping them again in the middle of next year. That is in the long-term contract business.

And I think the whole balance then is the drop in two principle areas and a shift in mix in the third. It is the absolute drop in North American distribution and export; we saw a very big drop in export particularly in our machinery segment in the end of September.

And for a company this size with our share base, a couple million matters on an EPS basis. And I think the third thing which is mix, but it is not unimportant is helicopters, which we term military aerospace where we did see a pretty big shift in mix as the year progressed and was particularly pronounced in the third quarter.

Steve Barger: That's great detail. Thanks.

James O'Leary: All of those would get you to probably more than 10 and then you got to factor in where we may have under or over performed in other parts of the business.

Steve Barger: And is that mix a permanent shift or is it timing in terms of the helicopters?

James O'Leary: I think it's timing. And I think I've given this analogy certainly talking to people and presentations and also on previous calls, but if you relate it to what you read in the papers in the early parts of the war effort, you had – you read every day about helicopters being shot down, a lot of moving people across longer distances and occupation effort rather than a ground effort where you are occupied and there. You don't read about that much more anymore because it is much less of an air occupation/assault than it is an occupation. So I think that is a large part of it.

I do think it is timing. There will be a replacement cycle at some point. I don't think we've seen it yet. And the bigger thing longer term to take away the simplicity of that is getting into commercial aerospace and we're bidding on projects now that we offer the first time in over a decade and being a lot more aggressive on it. But that is a bit of a longer-term initiative.

The other parts of the business, it is I would say more sentiment driven and if you looked at Kaydon historically that business will do better when people are comfortable inventorying and ordering. And I think you got to respect the fact that our customers are going to do that when their end sales are a little bit on the uptick.

I don't want to tell you a couple good weeks will make that big a difference with the headlines we have, but it is largely I think sentiment and end market driven. And that will come back. I don't think that's cyclical, but it is a function of how comfortable people are inventorying and ordering in a better economy than I think we've got right now.

Steve Barger: Right. So you did say end markets in North American distribution and export did weaken as the quarter progressed. Other companies that are reporting have indicated that is persisted into October. Just to be clear, you're seeing that weakness persist so far, through October?

James O'Leary: Through today no improvement.

Steve Barger: OK. The remediation steps that you had mentioned any specifics on that?

James O'Leary: But – remediation steps in the case of raw materials?

Steve Barger: Yeah.

James O'Leary: Going back we are looking at our purchasing contracts. We are looking at all our raw material purchases. We'll also and this is beyond what I meant there but as we go through the budget process we will be talking about a plan B with every business.

If we do continue to see a drop in volume, if we see a drop in absolute volumes; where do we have capacity? Where do we have too much capacity? What our potential and we are absolutely – we in particular are not at the stage of massive reductions in spending or personnel. But if you went into a precipitous decline as you did and it was long and deep, we're certainly deeper than it was earlier this decade, we will have a plan B for that and it will be an actionable plan B.

We're also looking at, there is something in the press release which we didn't talk about because we are obviously talking good news about wind, bad news about the general economy as it has impacted the distribution business. But right now we have a project underway that cost us coupled hundred thousand coupled with a drop-off in business in sealing products.

You know right now we are looking at the overall capacization there and whether or not there were broader, more longer-term profit driving initiatives we can put in place there. And the only good news about bad news is some of these things only get done when you've got a drop in business. And business isn't going so great guns that you are doing all you can to satisfy demand. When you have a pause like this it gives you an opportunity to get on some of those things that probably should have been considered long ago.

Steve Barger: Right. Well, I guess to the point of how deep the downturn could get, are you seeing any of your upstream vendors laying people off or getting squeezed by credit or do you have any worries about your own supply chain?

James O'Leary: Well, we – no, on the supply chain no, I think the only issue we've continued to have and it's a function of kind of a tale of two cities parable, we still have some headaches with supplies of forgings and wind energy. Nothing as bad as I think maybe two or three quarters ago, maybe it was three or four quarters ago when we first started talking about it.

But you know that business – there is a barometer that at least in near-term business isn't dropping off. You know that's still top, not impacted by financing. I think the only thing that you could attribute to financing that impacted us a bit this quarter, but I could not quantify it enough to be comparable saying it, so give it out anecdotally.

You know we do think we might have missed a couple of shipments because of trade credit issues where people wait until the end and maybe their banks were in such disarray things didn't get done as they expected. That is the type of thing that again anecdotally, I could say we heard through the chain.

I don't think we have any suppliers that are at financial risk. I don't think we have any major customers that have financial risk. Bu you know there have been – if you had asked me do I

think there will be an investment banking industry a quarter ago you know "boy" the world has changed very quickly.

I think the most important thing now is probably getting through this year end, seeing that people are taking advantage of some of the liquidity injection measures that government is making available to them. And putting that money to work because were we to do a big deal today, if we are comfortable enough with the quality of the asset and sustainability in even a broader downturn.

You couldn't find the money. I mean it is very challenging to get the few banks out there that are even talking about lending to make commitments. So I think you've got to get through this quarter end, make sure people's balance sheets are in good shape and hopefully that starts to transmit through to buyers, businesses consumers.

Steve Barger: Great. And one more question circling back to the defense business. Navistar has gotten some orders for its Dash, which is a smaller MRAP variant, I think for probably for Afghanistan. Do you expect we are going to see other stop gap measures for variants in front of JLTV that will benefit you? Or would it be better to see a pull forward of the bigger program, kind of how are you thinking about that given that MRAP didn't drop like you thought it might?

James O'Leary: I'm going to punt that question until probably the next quarter because I think we are getting smarter on that as the bidding goes forward. We are honestly as one of the principal suppliers for Humvees and now MRAP, we are involved in most of those discussions but I don't think I am smart enough to add any more color than what you just did.

Steve Barger: Thanks very much, gentlemen.

James O'Leary: OK. Thank you, Steve.

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

Nigel Coe: Thanks. Good morning.

Ken Crawford: Good morning, Nigel.

Nigel Coe: So, you've talked about the wind backlog being I think 182. You've given the agent for the total backlog. And I understand that the wind backlog is a little bit moved to the right given the nature of the product.

But could you know you said I think about \$34 million of wind sales expected in 4Q. How does the first half of '09 shape up currently with what you've got in your backlog?

James O'Leary: I think it's premature to talk about. The discussion we gave on wind was not that wind has moved to the right. I think that is the general caveat we've been giving since we started taking major orders there. Just that our backlog in general ships a little bit later.

And I actually think as we get into next year that will change when we are at a steady run rate for the capacity we've got coming online. And on what it will be next year, is probably we are going to punt that because we are going through our business planning process now.

Nigel Coe: OK. That's fair enough. I know you gave a lot of good information in terms of earnings as far as the inflation, the Boeing deleverage et cetera. But in terms of the friction margins, how much impact do you think the raw material pressure had in that segment and as we go into 4Q does that get better or would you expect a similar impact?

Ken Crawford: It has been a couple hundred basis points over the last few quarters.

Nigel Coe: Yeah.

Ken Crawford: I think much of that we recovered, although the way we track it, you see raw material price increases as one part of the profit bridge that we analyze. And then there are separate line items for price recovery, price increases, efficiency in the case of Six Sigma, some of the Kaydon programs we have.

So to directly say this increase got offset by this price increase or this efficiency initiative is kind of tough. But I do think it has been pretty close to even for the better part of the year.

I think it started to drop off or it got harder to offset it toward the end of last quarter. And I do think this quarter in particular was the most challenging. I do think we will get a lot of that back over the next couple of quarters.

I think this coming quarter because we are not in the middle of it, but we are one third through it, and we are in the process of going back and working through our purchasing people, our supply chain and back to some of our suppliers. I don't think you see a lot of it this quarter. I do expect you will see a fair bit next year.

And as far as margins, I think where we finished up I think 19, 19.5 for the third quarter; I think we will see a bit of a recovery in the fourth quarter. Does it take the total year? It probably takes the total year somewhere between 20 and 21 percent. I hope it will be closer to 21 percent. It will be somewhere between the two. A lot of that is capacity utilization. A lot of that is our normal fourth quarter pickup. Third quarter is usually our weakest and part of it is some of the issues we've got in place but I don't think you will see those come to full fruition until a bit later into next year,
Nigel.

Nigel Coe: No. That is great color, Ken. And then just two more questions for me, obviously you've got a great balance sheets and that is a real advantage in this environment. You know what is kind of the minimum level of buffer of cash buffer you need in this environment, I mean you obviously don't need \$270 million. You know why wouldn't you pick up the share buybacks at this point in time?

James O'Leary: Well, that is a discussion we are having and I want to relate it to one of the first questions on capital allocation was how are you evaluating that relative to M&A, relative to other opportunities. And it's an active dialogue we are having today internally and with our board. It is a board decision.

I think the key question is how deep – what is your downside? How deep a recession, what is the worst case and if we looked at historical periods Kaydon was pretty much cash generating even in those periods.

I think the difference today and again we are running these numbers now as we go through our business planning process, I think the only real difference is we do have some CapEx that needs to be completed for the existing projects and that I wouldn't say is committed but it is pretty much committed you know we are going to spend it. It is for a project that is an important part of '09 and our future.

We do have maintenance CapE you know I think historically we spent about three percent. Realistically I think Kaydon is about a three to five percent spender. And I'm pretty sure our cash generation, even if you are in a much deeper recession, I think we were in mid-to-low, excuse me, mid to high teens in the last two recessions as far as operating margins overall you know when you ignore write-offs and one-time gains and some of that stuff.

In an environment like that even if sales are lower we are still producing more cash than that five percent CapEx. So we don't need a big buffer. I think the big buffer we would need is not a big buffer is for CapEx already committed, particularly for wind energy. I think we should leave. I think it is prudent to leave some additional cushion this time in case projects come up and while it is a business that is still working, a secularly strong wind energy business but you don't need \$270 million.

Nigel Coe: No. And the actual CapEx commitments right now as you look into 4Q and the first half of '09, can you just remind us how much capital you've got committed right now for that expansion?

Ken Crawford: Well, we've the – the wind energy expansions that we've announced, the four phases that we've announced total up to about \$80 million, and we will spend \$78 million-ish of that by the end of this year. So just a couple \$3 million left committed to be spent in '09.

Nigel Coe: Great and then just one final one. Inventory has picked up a little bit from 2Q levels, I mean, how much of that was associated with the ramp up which occurred in 3Q? And you know maybe how much was due to some of the weakness in the book and ship business?

Ken Crawford: Well, the entire \$8 million increase in inventory is in our specialty bearings division, and it is primarily in Mexico. We are ramping up the wind energy stuff and we are buying forgings and making big bearings, and to a lesser extent we had a couple million dollar increase in inventory at Avon, and again, that was associated with what I have talked about earlier, realigning that plant and we didn't get as much out the door in Q3 because of that and it's sitting in inventory but it is expected to be shipped in Q4.

Nigel Coe: Thanks a lot.

Ken Crawford: Thank you, Nigel.

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

Peter Lisnic: Good morning, gentlemen.

Male: Good morning.

Male: Peter, you are officially good afternoon.

Peter Lisnic: Good morning.

Male: ((inaudible)) Chicago.

Peter Lisnic: I am still in the morning here.

Male: You get ((inaudible))

Peter Lisnic: Thank you. Jim, if you can maybe talk about the competitive landscape for wind a bit.

We've seen press releases from maybe direct or ancillary competitors; however, you want to phrase it, talk about expanding presence in that space and we've also seen other investments in section and other areas of the business.

Can you just talk about the competitive landscape that you are seeing? Are people becoming more aggressive given the downturn, and how do you think about all that going forward?

James O'Leary: You know to your response. I think I know the two things in particular you are talking about, and my response will be, I don't think it has really changed all that much, although if you are talking about one of our, I don't know if they are a competitor, but one of our peers in Ohio,

they issued a press release which I think was more gearbox bearings. I don't think they are turntables.

They are not large slewing ring bearings where we are competitive more with SKF and FAG. 10 guys who are coming online in the next few maybe the end of this year, beginning of 2010, which might be RBC. Timken, I think their press release earlier this week is noncompetitive with ours, it is mostly gearboxes. It is for the wind energy market but it is not stuff where we go head-to-head.

And the other press release which they issued earlier is absolutely custom concession, which we do but I don't think it was new. It is stuff we've always competed in. I think adding it as a catalog part certainly does suggest that they are taking it more seriously, but hopefully that is because it is a bigger market and we are pretty much the unabashed leader in that. I don't know if the competitive landscape has really changed.

So one of those notable releases not really directly competitive with us. The other one yes, it is, but it is stuff we have been competitive with anyway. So other than heightening our awareness as well, I don't know if it really changes much.

Peter Lisnic: OK. All right. That's good on that one. Then last question, if you could just, on the commodity cost side of the equation and your confidence in your ability to sort of start getting some of that back, can you maybe give us a sense as to what and I don't know if this is the right way of looking at it. But what percentage of revenue or what percentage of orders or backlog are contract based where you can actually dictate a price pass-through mechanism to help you recover those costs?

James O'Leary: Well, remember the wind business, it is contractually committed to, but it is up and down. So we get it back on the way up and we get it back on the way down. In terms of absolute dollars, there is really nothing we are going to be able to do within the wind energy business. But

the wind energy business isn't where we are talking about having gotten slapped on the back on that. It is the other parts of the business where I think that has had a deleterious impact. And I think, as I said, it has been a couple hundred basis points to 200, 300 basis points as a percentage of cost of sales, probably more percentage of sales over the last year or so.

That's everywhere except wind. So I think when you look at this year, I'll say we finish up at around 90. It is in the balance of the business and I think how you pass that through because we've got eight other businesses, very dissimilar. I don't know if I could say, we will get that all back by X of next year. I think we're going to selectively get back parts of it over the next year and hopefully we can recover that much or more by working with our supply base and getting efficiencies where they should exist.

Peter Lisnic: All right. That covers it for me. Thanks.

James O'Leary: OK. Pete, thanks.

Operator: And our final question will come from Holden Lewis with BB&T Capital Markets.

Holden Lewis: Thanks. Good afternoon.

James O'Leary: Hi, Holden.

Holden Lewis: I was curious about, in terms of, again I guess the gross and operating margin. You kind of said that you would have more absorption in Q4 and that could have up to maybe 100 basis points of benefit. I guess raw materials are probably looking like maybe a little bit of a claw back there but probably not a big number. But I guess at the same time you are going to see wind really take off, particularly what is happening in non-wind in terms of the mix. And I guess my question is, I mean, where are the wind margins relative to non-wind now? As a lot of the

pressures that you are seeing that is pushing the margin down mostly on the non-wind side so that at some point wind hasn't come in as much and so the increase in wind in the mix is actually going to become a positive or a stabilizer to the margin? Or as the wind margins come down along with the non-wind margins so that as that mix increases, it's going to continue to be a drag on the mix?

James O'Leary: I think – what you were saying is pressure on the margins again is largely mix. It is business that had it shipped and it has gross margins of meaningfully higher than company average. It mathematically would have pulled up the business significantly. So it is not that we are seeing pressure, pushbacks on price. That is pure volume of higher margin product. I think you could say, it started earlier this year with certain military programs, particularly the strokeable races. And it has continued now with North America in what we call book and ship business.

As I think over a longer-term cycle when you've got stable base business in a machinery sector in a North American industrial business with export as well, we expect Kaydon's margins to be somewhere in the low 20s. I expect it to be as I mentioned before, somewhere between 20 and 21 as we finish this year. There are some absorption issues, but those are issues that we expected and anticipated when we planned for this year.

What we didn't plan for this year is a pretty significant drop-off, particularly as the third quarter progressed in some of the other business that I would say is discretionary. People, their willingness to take inventory and at one sales typically the smaller factories for automation robotics which is kind of the heart of the custom thin section line. That is where I don't say we saw margin pressure, we saw a drop-off in business that would have averaged up our margins.

And kind of the flipside of that which we have talked about for a couple years here is we saw margins come down as our custom – excuse me – as our split-roller bearing business doubled.

And that business is high teens, just touching on 20, just mathematically as that business doubles at margins that still most of our competitors would kill for, it brings the margins down.

So I focus on the margin issue more as a drop-off in discretionary high-margin business, mix issue within military, not pressure that I would say is anything other than this was something you had to anticipate as we grew the company.

Holden Lewis: OK. Fair enough. But I guess what I'm trying to get at is, we expect that wind will become significantly larger portion of the mix particularly given that non-wind is slowing down. And we've kind of cited wind as being one of those sort of mix pressures, if you will. But I would think that demand and improved absorption on wind while the non-wind is perhaps seeing under absorption and weaker mix and that sort of thing. I mean, at some point does the growth in wind and the mix become a benefit or a stabilizer of the margin or is it still much larger? Or is it still lower than the corporate average even at 35 gross and 19.5 operating?

James O'Leary: It is still lower than the company average because we have so many niches that are difficult to grow; we have ridiculously high margins and that has I think historically been the composition of the company. It is a stabilizer right away if you think about it. I mean, you are introducing something that is good margins that doesn't change. It benefits – remember it can only benefit when some of these contracts reset because so much of it is under long-term supply agreement. So it can benefit when the contracts reset and that goes out over a couple years.

So our original strategy with wind was we guarantee the IRR, we guaranteed our investments around a couple of key customers or a key customer in particular and we are still happy with that decision. They are happy with it. I think it was unequivocally the right thing to do. It stabilizes margin for the short term if everything goes down but not at Kaydon historical levels, which probably couldn't be grown beyond what the company had reached.

Holden Lewis: Right, but it's also still a little bit below where we are in the third quarter so as wind grows the mix, it will still be a pressure on the mix?

James O'Leary: Well, if you are 19.5 and you think over cycle it is, as you said before, 19.20 it should be kind of spot on stabilizing.

Holden Lewis: OK. And then in terms of your capacity, I mean, I understand that you are just about done this latest round, but you had plans I think to expand further in 2009 and maybe add another line or two. Is that right and is that sort of been put off at this point?

James O'Leary: Did you join the call a little bit late?

Holden Lewis: I may have – either that or I missed an adjective or something somewhere. I don't know.

James O'Leary: What call was more important than us?

Holden Lewis: I did not join the call late. I missed something.

James O'Leary: On capital allocation, someone asked the question as to what the financing markets were doing to the wind business. In the short term, we haven't seen significant impact. Over the long term and if you remember we announced, we secured and our board still fully supports additional capacity expansion in a meaningful amount well over \$50 million. If we had customer commitments and if we were comfortable with the long-term supply agreements that would underlie those investment decisions. That is I think that has been impacted by – well I wouldn't say, I hope this is a transitory issue, but right now the longer-term financing at least, I don't believe it is a short-term financing today but absolutely long-term financing decisions are being impacted by the credit markets.

So until that gets better, until our customers are more comfortable with long-term supply agreements, we have not committed nor have we in the comments that Ken gave before factored into our capital spending the additional – I think it anywhere between 50 million and 80 million based on new facility greenfield expansion of existing facility and a potential non-US facility that would be also greenfield.

So we talked about three possible expansions; all of which we are still exploring and talking to people about, none of which we are going to spend unless we are comfortable with longer-term horizon and I do think that is financing related.

Holden Lewis: OK.

James O'Leary: Is that helpful?

Holden Lewis: That is. Thank you.

James O'Leary: Sorry, if that was confusing but that piece in particular, we would love to be spending that money, but we have to spend it in parameters that we are comfortable we can secure the investment for you.

Holden Lewis: OK. Thanks.

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

James O'Leary: The only remark is that this was a challenging quarter. We are not happy about it or pleased about it, but we recognize and are respectful that it has gotten to be a very tough economic environment. That is the one thing I can assure you is on the fronts is capital allocation

and contingency planning. If this is a tougher period for a longer time than any of us expect. We are working now on all the steps needed to make sure we are going through this and coming out of it in the best shape possible. And we appreciate your attendance today, your patience and we are working hard for you here. So thank you.

Operator: And that will conclude today's call. We thank you for your participation.

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