ZOLTEK COMPANIES, INC.

Moderator: Zsolt Rumy
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Operator: Good day everyone, and welcome to the Zoltek second quarter 2005 earnings results conference call. As a reminder, today's call is being recorded.

For opening remarks and introductions, I would like to turn the call over to Mr. Zsolt Rumy, President and Chief Executive Officer for Zoltek. Please go ahead, sir.

Zsolt Rumy: Good morning, everybody. Welcome to our conference call.

Given the situation with the financial reporting, delays and everything else, I believe that is going to be the primary interest to everybody. So I would like to give a very brief summary of what the operating activities are and then we can turn over the conference call to Kevin Schott, our CFO, who is sitting in with me, and we will be able to explain what happened and also cover any questions that you may have both on financial reporting, as well as operations.

First of all, sales continue to be very strong. Demand far exceeds our ability to supply right now. This is not a happy situation to some extent because, obviously, we would like to sell more and also the long-term interest for the Company and our strategy is to satisfy the demand in the commercial applications. We are scrambling to catch up with sales as soon as possible.

On the operations side regarding Abilene, as we mentioned in the press release and some other conferences, we are having more problems than we would like to see. Much of it is due to the lines being down for as long as they have, operations and maintenance problems are cropping up as we run the plant. Obviously, there are some employee training issues that continue to be more problematic than they should be. I think we have 100+ new employees, and training them and getting them efficient is not an easy task as one would think.

At the same time, I think we uncovered an original installation flaw that also added a snag in the start-up and we are correcting those problems. I believe going forward, we have our biggest problems behind us, and I think we will be in fairly good shape to get the operations efficient and shipments caught up with sales.

Regarding the new projects, the expansion of the Hungarian facility and the additional new lines are going on. Installation work is going on, major items have all been purchased and most of the contracts are being issued toward the installation right now and it looks like it should meet the September schedule for operation.

We are also looking to add, in addition to our carbon fiber lines, two Pyron lines to meet the additional demands and also to further expand our aircraft brake business. All this new capacity will require additional precursor capacity to come on stream at the same time frame as the carbon fiber line expansion.

There is one significant event that happened since the close of the second quarter that I think is important to mention and there is enough public information out there that someone might have picked up on it and have some questions. Our supplier for the precursor for the aircraft business is in receivership – it is kind of like the English version of chapter 7bankruptcy liquidation. The company is Acordis UK Ltd. - the acrylic fibers portion of Acordis. The administrator is Deloitte and they are looking for our buyers in the next 2 weeks. They will continue to operate for the next 8 to 10 weeks, at which time, more than likely, if they do not find a buyer, they will be shutting down the facility.

Our supply contract with Acordis is null and void after the declaration of bankruptcy. We have significant inventories to bridge the gaps until new materials can be qualified for the aircraft brake programs for all our current customers. At the same time, as we mentioned several times in our 10-Qs, we have been working with our aircraft brake customers to qualify our Mavilon-based precursor. Obviously, that process has now been accelerated and looks like it actually might turn out to be a fantastic opportunity to take better control over this market, improve our relations with our customers and hopefully the long-term profitability of this business.

I just want to make some preliminary comments on the financial reporting issues.

As you have read in the press release, I have tried to explain in as clear English as possible, for a Hungarian at least, what is happening and I am hoping that our shareholders will understand -- most of the institutional investors are more capable of understanding the situation and I am hoping that our individual shareholders will also understand. We discovered a possible problem in the way we reported the financing for the convertible loans after we received a standard SEC review letter, which basically was just a normal review letter. We have not been reviewed for many years -- I think about eight years or so.

So we had a kind of easy questions. Basically they were on the 10-Qs, which were no problem to answer, but there was a question about the way we accounted for loans and whether we should have used the derivative accounting method. And so we reviewed again the financial accounting regulations and basically there was a possibility that could be the proper way of reporting, although it seemed ridiculous to have a derivative accounting for a fairly straightforward financing activity.

Ultimately, Pricewaterhouse (PW) got involved with their review of both, our answer to the SEC, as well as our quarterly reporting. Basically there was tremendous delay in response as to how to treat this problem and finally it got to the point where we missed our filing dates, which then, of course, triggered the action by NASDAQ. We have had very straight-forward communication with NASDAQ all along. We had a fairly detailed description at the end of our press release as to what we are facing with NASDAQ and it is really not so bad. As soon as we issue our 10-Q, they will immediately review it and hopefully we will have the “E” designation removed from our stock symbol by the end of the week.

We thought we had the 10-Q ready to file on Friday but it was also delayed again. Although the quarterly statements are not audited, we can not file them without PW’s approval. We are waiting for PWs review and we hope to have our 10-Q...

Kevin Schott: Shortly.

Zsolt Rumy: This evening we should be able to issue our 10-Q. For further background, I will turn the phone over to Kevin, he will give you a little more information and then we will open it up for questions.

Kevin Schott: Thanks, Zsolt. We need to mention our legal disclaimer which is as follows - This conference call contains forward-looking statements which are based upon current expectations of the Company. Because theses forward-looking statements are inherently subject to risk and uncertainties, there are a number of factors that could cause the Company’s plans, actions and actual results to differ materially. Among these factors are the Company’s ability to re-activate its formerly idle manufacturing facilities on a timely and cost-effective basis, to meet current order levels for carbon fibers; successfully add new capacity for the production of carbon fiber and precursor raw material; execute plans to exit its specialty products business and reduce costs; achieve profitable operations; raise new capital and increase its borrowing at acceptable costs; manage changes in customers’ forecasted requirements for the Company’s products; continue investing in application and market development; manufacture low-cost carbon fibers and profitably market them; and penetrate existing, identified and emerging markets. The timing and occurrence or nonoccurrence of transaction events that determine the future effects of these factors on the Company, as well as other factors, may be beyond the control of the Company. The Company undertakes no obligations to update any forward-looking statements to reflect events or circumstances after the date of this conference call.

Now, real quickly, I will try in layman's terms to describe the treatment of the convertible debt deal. Our prior filings were basically what we call using the equity method of accounting on these transactions, which at the date of issuance, you assign a fair value to the warrant and a potential beneficial conversion feature of the debt. You book that as a discount against the debt and you amortize that discount over the life of the convertible debt into an expense until it either converts or until it is paid off. That is the common treatment of these convertible debt transactions and that was the method the Company had used in prior filings.

As Zsolt mentioned, about two and a half weeks ago management, along with their outside experts, were made aware that based on certain clauses in these convertible debt agreements there was a potential that these warrants, along with conversion feature of the debt, could be treated as a derivative. The accounting treatment for that is somewhat similar to what we did up front. You still book the fair market value at the date of issuance as a discount against your debt. You amortize that off.

However, there is a second piece to that which is you have to assign a fair value to that derivative, along with a fair value to that conversion feature. That gets booked as an additional liability on the Company’s books as of that date. And then at the end of every quarter, you have to value that liability based on a Black-Scholes method like you do with the options. You have to book a gain or loss through your P&L based on what the model comes up with as far as what the new fair value of the options or derivative is going to be.

It is a non-cash, non-operating transaction. It has no effect on our business whatsoever. It is very esoteric, very high-level accounting that really, in essence, should not apply to Zoltek because we are not in the business of trading derivatives. However, based on review of certain clauses in the agreement, it throws us into the world of derivative accounting.

So again, I want to reiterate, it has no affect on the cash of this business and has no affect on the operating aspect of this business. It is strictly a financial transaction. And just to show you how this applies in a non-commonsense way, as the stock price of the Company increases, the loss the Company will have to book on this fair value of these warrants and conversion features will also increase the loss of the Company as inversely as the stock goes down, the Company will book a gain related to the transaction.

Then ultimately, when this is all said and done, as of a date of conversion when these happen, the fair market value will in essence reverse itself out and run through your stockholders equity. It has basically zero impact on the financial statements. So it is a complex transaction. When we originally did the transaction, we did it like most convertible debt deals are done.

However, there are certain terms within these agreements that management, along with the outside experts, now believe could throw us into this derivative accounting feature. It has been about two and a half weeks since we have raised that issue and even longer to come to that conclusion. It took us a lot longer than we would have liked to it but we will be filing our 10-Q very shortly.

As far as NASDAQ goes, once we have filed, they will review it. And we hope to resolve the issue of the trading symbol with a fifth character “E” on a very informal basis and not have to go through the appeal process related to that. We believe this will be cleared up in a very short time frame. But until then, we will be trading with the “E” on the back of our name.

I am sure I will have questions when we get to Q&A and I will be more than happy to answer anything more about that.

Real quickly, just to hit a few highlights related to this quarter, from a financial perspective…

One, I will first of all go over another funding transaction we completed in February 2005. It seems funny talking about that in mid-May, but we did have one in February 2005. We basically raised $20 million of a convertible debt deal at a $20 conversion with about 450,000 warrants with a $17.50 strike price. It is a 42-month note and the interest rate is 7.5%. The proceeds of it went to pay off an existing bank debt and the rest is being used to fund the expansion, as Zsolt had mentioned, in our Hungarian operation for the two new lines, plus increasing our precursor to match the expansion.

The note that was paid off was the $6 million mortgage note. It was done at an extremely high interest rate of 13.5%. When we had to pay off the $6 million note, we also had a $300,000 pre-payment fee at that point in time. However, we have basically switched out the 13.5% note to a 7.5% note.

The other thing that happened during this quarter is that Zoltek had achieved certain parameters that were able to force conversion on the January and March 2004 convertible debt deals of $7 million and approximately $6 million, respectively, which will reduce debt by $13 million. We issued 2.2 million shares of common stock when that converted. Basically, we raised $20 million. We paid off $19 million. We had a net $1 million increase in the overall gross debt for the Company during the quarter.

As Zsolt mentioned, a couple of highlights on our sales. For the three-month period, our overall sales were up 37%, $4.3 million over the prior March quarter, which is total sales of $15.7 million. Carbon fiber sales, specifically, were up $3.5 million or 74%, to $8.2 million. And most of this, again, is attributed to getting our Abilene facility up and running, which was basically not running in the March quarter of last year, to provide the production capabilities mainly for our wind energy customers. Technical fiber sales were also up over $1 million or 27% to $4.7 million, as our aircraft brake business has seen continual steady growth from prior years.

On the six-month period, overall sales were up $9.6 million or 48%, to $29.3 million. Carbon fiber sales were up $7.5 million or 96%, to $15.3 million. Again, as mentioned, related to getting our Abilene facility up and running and providing our carbon fiber to the customer contracts that we have. Our technical fiber sales, again, up $1.9 million or 27%, to $8.4 million. Again, same reason as mentioned in the three-month period.

I will also mention that the 2004 numbers have been reformatted or recast to show the discontinued operations treatment related to the two divisions that we closed in the last fiscal quarter of 2004 -- our Crumeron acrylic textile fibers and Danamid nylon filament divisions in Hungary.

In our cost of goods sold for the three-month period, we were up about $5.4 million to $14.9 million, compared to the prior 2004 quarter, of $9.5 million. Carbon fiber was up about $4.8 million to $8.5 million. And technical fiber was up about $0.6 million to $3.9 million. The three-months ended 2005 were basically affected by about $1.3 million related to the start-up inefficiency costs in our Abilene facility and also in our precursor operations in Hungary, which should be absorbed into additional production in the quarters moving forward. If you take that out, then the carbon fiber gross margins significantly improve on a comparable basis.

For the six-month period on cost of goods sold, we were up about $10.8 million to $27.3 million. Carbon fiber was up $8.8 million to $15.5 million. And technical fiber was up $1.4 million to $6.9 million. Again, in the six-month period now, we have had about $3.2 million of start-up and efficiency costs related to Abilene and our precursor facility. As I said earlier, we expect that to be absorbed into our production on a going-forward basis in the coming quarter and we will significantly improve our margins going forward. The available capacity cost, as you will see from the press release, decreased significantly. Again, those costs are now being absorbed into cost of goods sold as we bring up our Abilene facility moving forward.

Our operating income for the quarter was basically a negative $2 million. If you pull out the $1.3 million worth of start-up inefficiencies, you are at $0.7 million, of which about $1.4 million is depreciation cost. In the six-month period, our operating income was basically a $3.7 million loss. $3.2 million of that is related to our start-up inefficiency costs. So you are looking at about a $0.5 million adjusted operating profit once these start-up costs are absorbed into production. Of that, $2.8 million is depreciation.

Below the operating line, which is going to get a little more difficult to reflect due to the accounting treatment of the warrants and the convertible feature of the debt, interest costs are obviously up for the quarter-over-quarter and six months as we have obviously increased funding and additional debt to fund our expansion. The amortization expense, which is non-cash related, was up for two reasons. One, about $0.7 million of that change for this quarter and for the six months was related to writing off unamortized costs related to paying off our mortgage note to Beal Bank. And, obviously, as you have a discount feature related to the convertible debt, as mentioned above, you have to amortize that out.

The gain or loss on other expenses is another non-cash charge that is related to revaluing the intercompany loan between the U.S. and Hungary. That number will fluctuate given the Hungarians relationship. But again, it is all a non-cash charge.

So that gives you a feel for our income statement and where we are at through a three- and six-month period.

On the cash flow side, you will see that our inventory for the three months actually went up about $0.7 million; for the six months it was up $4 million. A majority of that is related to increasing our precursor shipments to Abilene. It takes four weeks to get a container from Hungary to the U.S. operations. So as we continue to ship more precursor to Abilene, that is causing some increases in our inventory as we do have a significant amount of precursor sitting on the ocean traveling to Abilene as quickly as possible.

We are also, as Zsolt will probably mention, working on some initiatives to sell some old existing inventory, mainly in milled and chopped fiber, and we should see some significant decreases going forward related to what we have in inventory related to those two things and going forward in quarters the rest of this year.

Property, plant and equipment -- we are expanding both in Abilene, getting the lines up and running, along with the expansion in our Hungarian operations. So property and equipment will continue to be in the range of what it has been in these quarters and will continue going forward for the rest of this year.

We did get the funding to expand two new lines in Hungary, along with expanding our precursor, so we should be set on getting those up and running. And as we have mentioned before, we have additional plans on expansion, basically doubling our capacity. From that standpoint, we will have to raise additional cash to be able to fund those expansions. But we are hoping by that time the Company is operating all seven or nine lines at an efficient rate and generating some positive cash flow that we will be looking at for a traditional wave of financing going forward.

With that, I will turn it over to Zsolt. And once Zsolt gets done, I would be more than happy to answer any questions. Thank you.

Zsolt Rumy: Now that we have covered the financial side more than adequately, I did want to say that we will have to re-file a restated 10-K for last year and 10-Qs for June 2004 and December 2004 quarters in order to correct this derivative accounting. We will do that very quickly. There will be no effect whatsoever on the operational numbers for these restated reports.

With that, I would like to turn it back over to Jake, our operator, and facilitate any questions you may have.

Operator: Thank you, sir. Today's question and answer session will be conducted electronically. If you would like to ask a question, you may do so by simply pressing the star key followed by the digit one on your touch-tone telephone. Do keep in mind that if you have been using a speakerphone, please make sure your mute function has been turned off to allow the signal to reach our equipment. Once again, that is star one. And we will pause for just a moment to assemble our roster.

The first question will come from Steven Osborn of Fragramatics.

Steven Osborn: Good morning.

Zsolt Rumy: Good morning.

Steven Osborn: I had a question on the forced conversion. That was something that Zoltek, the Company, did at Zoltek's discretion. We forced those convertible holders to convert and basically, in my opinion, it probably put some excess shares on the market prematurely. But first of all, is my assumption right, it was a forced conversion by Zoltek to force them to convert? The second thing is -- and I'm sure this question is on the minds of a lot of people since it is out there in the form of a research report – we have an estimate of 2 cents a share in the black for this quarter, which would be the first quarterly profit in some time. That's my other question, are we still on track to make a profit in this quarter due to the fact that we have more than anticipated problems with the start-up?

Kevin Schott: I will answer the first question. It was at the Company's discretion to force the conversion of this debt. We believe it is in the Company's best interest to get the debt off the books as quickly as possible and it reduces the interest cash out the door. Instead of spending our cash on interest, we would much rather spend our cash related to expanding the Company's production capabilities. We do understand that it does put some extra shares out there but we would much rather get the debt off the books as quickly as possible.

Zsolt Rumy: This was Capstone's number?

Kevin Schott: Yes, that was Capstone's number.

Zsolt Rumy: Well, unfortunately, we only had one company, Capstone, covering us and I guess 2-cents a share for the quarter was their estimate. Given the situation in Abilene and trying to catch up, we will probably not have 2-cents earnings this quarter. And we will give some indication as to what we are doing. But at this point, I would say, we do not have the answers but it does not look like 2-cents earnings.

Steven Osborn: OK. My follow-up question to that would be, are we on track, in your opinion, to hit the $17.9 million in revenue? Because that's more important to me actually than the 2-cents is at this point.

Zsolt Rumy: Yes, I think that the revenue part is pretty well on track.

Steven Osborn: OK. Thank you.

Zsolt Rumy: Thanks.

Operator: And now moving on to a question from Tom Dehudy with Innovative Asset Management.

Tom Dehudy: Good morning.

Zsolt Rumy: Morning. How are you doing, Tom?

Tom Dehudy: OK. How are you? Relative to this new optionality issue that has come up, can you give us some idea of what the sensitivity in this is? Meaning that as your stock price goes up to what levels, what kind of earnings impact are you likely to see?

Kevin Schott: Well, Tom, there are a bunch of different variables to throw into our Black-Scholes model. It is not only the stock price, but it is volatility. It is risk free interest rates. We are currently working on something like that. I do not have an answer for you on that right now. But I reiterate again, it has no impact on the operating results of this Company whatsoever. And at some point in time, it will go away when all this debt is converted and the warrants are exercised.

But again, to give you a sensitivity analysis, it is a little more complex than just saying the stock price. The stock price is a big part of it, but as you well know in the Black-Scholes method, there are a lot of different variables that go into calculating what that could be.

Zsolt Rumy: Well, the key is that the stock price movement, I think, gives you volatility and that is why, when the stock goes higher, you are actually in a loss because the presumed cost of the derivatives is much higher. So it is kind of crazy. And the numbers may very well be overshadowing the operating numbers, which is also kind of silly. But I think the thing to remember in the end is when it is all said and done and all the shares are converted, the whole conversion feature becomes zero. The accounting for the warrant is going to come down to the difference between the warrant exercise price versus the market price of the shares at the time of exercise. And that difference is only will stay on the books going forward.

So all in all, this is going to take a couple of years to work through unless we can figure out a way to get our bond holders to convert earlier, which is something we may end up trying to do.

Kevin Schott: Just to show you with the last caller saying we had not made a net income on a quarter for a while. Well, if you look at the press release this quarter, we did make a $2 million profit. So it is a little tongue and cheek for my part, but we did have a $9 million gain on the value of the warrant. So that kind of shows you the common sense approach to this really does not apply.

Tom Dehudy: Yes. I guess my concern is that this will affect your financial results as will be presented, you know ...

Kevin Schott: Well again, Tom, if I'm looking at this company, I would focus on what my operating income is. Anything below operating income, at this point in time, is not really relevant; not the correct word, but if you are looking at where this company is going and how this company is doing, the operating income is the line to focus on.

Zsolt Rumy: And I will try to convince people to adjust our reporting sequence or the numerical sequence in our reporting, to try to come up with an operating number that is very clear to understand. And then beneath that to bunch up all the financing related charges so there will be a separation. Right now this seems to be somewhat intermingled and I would like to get this separated so it would be much clearer for a regular shareholder to read in our reports.

Tom Dehudy: Just one last question on that. Is there some level in terms of stock price at which these converts will convert and the warrants get exercised such that we have some idea of when this could go away?

Kevin Schott: Well, I will not say specific numbers. But I will say that on the convertible debt deals that are still existing, on the two $20 million convert deals, they do have forced conversion features as the Company makes certain parameters. You cannot force conversion of the warrants at this point in time.

Tom Dehudy: OK.

Zsolt Rumy: The bigger swing comes from the conversion.

Kevin Schott: Yes, the warrant piece of this calculation on the fair value does not cause a big swing. The big swings in your P&L come from valuing the conversion feature of the day and there are big swings related to that. So the convertibles debt feature is one that causes those significant swings.

Tom Dehudy: And just one more question on this. Given the magnitude of the impact of this, what are the features imbedded in the convert that give you this kind of volatility?

Kevin Schott: Tom, I would rather not get into it. However, I will tell you that the clauses in the debt that throw us into this are so insignificant both to the Company and to the debt holder. If we would have known about this treatment, those things could have been changed. And possibly these clauses might potentially be changed going forward.

Tom Dehudy: OK.

Kevin Schott: But they are so insignificant to the actual conceptual process of the deal that we are looking at different avenues to potentially address that.

Tom Dehudy: OK. Thank you.

Operator: And now we will take a question from Lenny Brecken of Brecken Capital.

Lenny Brecken: Hi, guys. When were those shares that you had discussed forced to convert? What was the date on that?

Kevin Schott: I'm sorry, the forced conversion?

Lenny Brecken: Yes.

Kevin Schott: I would say, it happened a little in January, some in February and some in March, all along the way.

Lenny Brecken: OK. I was just curious whether that was a near-term event or a ...

Kevin Schott: No, that happened during the past quarter.

Lenny Brecken: OK. Can you just lay it out -- I know we are tracking a little bit behind this quarter because of the start-up costs. But my first question is, did I get it correct from Mr. Rumy that the start-up cost issues are pretty much behind the Company as of today?

Zsolt Rumy: I think what I was saying is that we are making significant progress in dealing with our start-up. And I think that we are on the downhill slide in finishing the start-up problems. And hopefully by the end of June, we will actually have our fifth line started and solve all the start-up issues and be on a pretty good track to meet our sales obligations.

Lenny Brecken: All right. It sounds like the start-up issues are just -- how would you classify them? Are they operational issues? Manufacturing issues? Logistical issues?

Zsolt Rumy: Yes, they are mostly the manner of training and the amount of work it takes to revamp the lines, train the people, and so with these kind of situations you have accidental shutdowns, we have also, unfortunately, had a number of power outages that really is not part of our problem. We also need to deal with how to prevent those as they do cause a lot of problems because all the lines go down and we have to restart, which is time consuming, and we lose a lot of production time. But nothing that is out of the ordinary.

As I said before, I think that personally I thought we would do it much more smoothly but it is also not unusual to have these kinds of problems. Four years of downtime on installed equipment is a long time and we have had a lot of unexpected mechanical problems all related to equipment being down for so long. So again, I do not want to make any excuses because I'm stating that it has taken longer than I would like but it is a lot easier to fix operational problems than have no revenues and our strategy being into question. So I think we are certainly on an uphill climb at this point.

Lenny Brecken: All right. Sounds like it is very short term.

Zsolt Rumy: Correct.

Lenny Brecken: With that in mind, could you lay out for the balance of the year as you move into cash flow positive, what your capital requirements are going to be? How is that going to be financed? And in the same right, as a common shareholder, the interest on these converts is quite high. I'm just wondering what the Company's capital structure plans are going to be going out in light of the questions that I just mentioned.

Zsolt Rumy: I think the answer to the question is that the funding coming from these convertibles has given us more or less enough cash to complete the first round of expansion after the

Abilene start-up, which was very important for us. And then the second round is going to be pretty expansive. We are talking well into the $40+ million range to put in 9 million pound capacity in associated precursors.

So that expansion is obviously going to be funded differently, and never say never, but we have no intentions of any more convertibles and hopefully we will fund the next major expansion by either a secondary offering or some regular, normal bank debt -- a justified balance between the two. We have diluted the shares significantly to get out of our doldrums and now we want to minimize the valuation as we raise more money for the expansion.

Lenny Brecken: All right. Well, great. Maybe the fundamentals will be more reflective in your stock price and ...

Zsolt Rumy: Right. That is one of the concerns that I personally have about this treatment where if it confuses a lot of people then, obviously, our stock price will reflect that. So we are going to have to deal with it as soon as we can.

Lenny Brecken: All right. I'm going to get back in the queue. Thanks again.

Zsolt Rumy: Thank you.

Operator: And as a reminder, it is star one if you have a question. Now moving to Jay Mullins, Carlson Investment Group.

Jay Mullins: Hi. This is Jay.

Zsolt Rumy: Hi, Jay.

Kevin Schott: How are you?

Jay Mullins: I'm good, thank you. I missed the first part of the call, so I apologize if I'm repeating anything. And I also don't have in front of me any cash flow statements. Maybe they are not out there. Can you talk about your cash burn in the March quarter and your estimates for the current quarter?

Kevin Schott: Sure. Just a second here. From an operating basis, the cash burn for this quarter was about $5 million. A significant piece of that is related to property plant and equipment expansion, which was about $3 million of that, along with some upticks in our accounts receivable, some upticks in inventory, which is clearly related to expansion. As I mentioned before, our inventory went up about $700,000, almost $1 million this quarter, and that was specifically related to shipping more precursor to Abilene as it takes four weeks to get from Hungary to our Abilene facility. And as we continue to expand, we are shipping more precursor constantly over there.

Accounts receivable -- revenues are increasing and as they continue to increase, you will see some swings in our accounts receivable that will probably continue to go up for a while as we book more revenue related to that. At this point in time, I would not like to comment on what we think our third quarter cash flow is going to be. But, obviously, you do know we are still expanding in Hungary and building two new lines. So our capital is going to be fairly consistent for a while going forward.

Jay Mullins: The $3 million you described is property, plant and equipment, which is described as non-recurring or is it one-time or is it ...

Kevin Schott: Well, again, we are expanding in Hungary and building new lines.

Jay Mullins: Yes.

Kevin Schott: And if we build new precursor lines, you are going to have capital expenditures over there, and so, it is going to be until the end of this year. As we said, we hope to have the two new lines up and running by that time over there it will be pretty consistent.

Jay Mullins: OK.

Zsolt Rumy: I might add that if you look at our accounts receivable as not changed, even though our sales have gone up significantly, it is a reflection of better receivables from the fiber business as we shed some of our traditional businesses in Hungary, which were always a collection problem.

Jay Mullins: Yes, I would imagine that. The impression I have gotten from the demand, you would think your accounts receivable would reflect the desire of your customer to get your product. I don't want to put words in your month -- that would make sense considering the environment.

Kevin Schott: Right.

Zsolt Rumy: Yes, Jay.

Jay Mullins: Again, I apologize; this might have been covered in the beginning. As I look at the income statement and I see the gain/loss, the line item of the $9 million ...

Kevin Schott: Yes.

Jay Mullins: 128.

Kevin Schott: Yes.

Jay Mullins: If someone like me is trying to do his own pro-forma of extracting the affect of the conversion, is that the only line item or is that ...

Kevin Schott: There are two pieces to it. One, that is the one that is going to fluctuate consistently every quarter given where the Company's stock price is and certain other characteristics related to the Black-Scholes model. That will be the one.

The other piece that links to the convertible debt is the amortization of deferred financing costs and the warrant. There is a non-cash portion of that related to the initial value of the warrant and the conversion feature that is being amortized. That will go away. That number will basically drop to that $2.6 million for the quarter ended March. That will basically drop away at some point in time.

Jay Mullins: So the $3.7 million of that $2.6 million of the amortization ...

Kevin Schott: I'm sorry; yes, about $2.6 million is the amortization. And that will go away at some point in time.

Jay Mullins: OK.

Kevin Schott: When they convert and the warrant converts. And then at $9.1 million gain, that is just a function of the Black-Scholes model and the value of the warrants and the...

Jay Mullins: Well, you also mentioned something about $0.7 million writeoff on amortized ...

Kevin Schott: That is in the $2.6 million already.

Jay Mullins: OK. And that was related to the mortgage debt that is gone, right?

Kevin Schott: That is correct.

Jay Mullins: So, if I take the $0.7 million out of the $2.6 million, it is about ...

Kevin Schott: $1.9 million and all of that is a non-cash charge related to amortizing the original value of the warrants and the original value of the conversion feature.

Jay Mullins: OK.

Kevin Schott: As amortized out over the life of the debt.

Jay Mullins: So if I net that out of the $9.1 million, I can get my pro-forma number? I guess what I am saying is there is some rational in approaching it that way.

Kevin Schott: Yes.

Jay Mullins: The $1.9 million and the 128.

Kevin Schott: Somewhat, yes, you are correct.

Jay Mullins: OK.

Kevin Schott: That basically gets you down to operating income. I mean, other than interest costs.

Jay Mullins: Right. And it is non-cash, so ...

Kevin Schott: Yes.

Jay Mullins: I guess you already mentioned that the biggest swing is related to the debt piece, not the warrant.

Kevin Schott: Yes, the conversion feature of the debt. That is correct.

Jay Mullins: Can you put that in any kind of percentage or what is the magnitude of the debt versus the warrants?

Kevin Schott: Yes, if you look at either the quarter ended or the six-months ended, you are basically looking at 75% of that number is made up of the conversion feature of the day.

Zsolt Rumy: Jay, you might wait until the 10-Q comes out.

Kevin Schott: You will see it in a lot of detail.

Zsolt Rumy: We will detail all that out.

Jay Mullins: OK.

Kevin Schott: It is very detailed within the 10-Q.

Jay Mullins: OK. What is the timing of the 10-Q? I'm sorry.

Kevin Schott: Shortly.

Jay Mullins: OK. : Is there going to be a call replay number because I did miss the beginning?

Kevin Schott: We will have a transcript on our website in the next few days.

Jay Mullins: That's great. One last question. The 10-Q last year, when I looked at the March quarter, it had a higher number than what you reported. I assume you have non-discontinued operations in the old number?

Kevin Schott: Yes, that is correct. It is the 2004 quarter of March 31 and the six months ended that have been changed to reflect the discontinued operations treatment of our two business units in Hungary which we shut down.

Jay Mullins: OK. Great. I'll let someone else jump in. Thank you.

Operator: We will now take a question from Peter Reiss with Paulson Investments.

Zsolt Rumy: Hello, Peter. How are you?

Peter Reiss: Good. Getting the Abilene and Hungary lines up and running is taking you more time. Is this going to put in jeopardy any of your contractual arrangements with all those orders that you have announced?

Zsolt Rumy: I don't think so. We have provisions for what we are doing. And, by the way, the start-up is really Abilene. Our Hungarian operation is running better than ever. And both the precursor and the carbon fiber lines are running in fine condition. So our problems are purely concentrated in Abilene.

Peter Reiss: So you are still able to go out and try to generate more sales even though the plants are not up and running yet?

Zsolt Rumy: Our demand is so much more than what we can produce, so we are trying to allocate the customers based on a long-term potential rather than short-term demand. So it is a constant difficulty for our sales department to figure out who we ship to.

Peter Reiss: Now on the recent price increases you announced, was that because of the oil stocks cost going up or just your cost of bringing on the new lines?

Zsolt Rumy: No. I think those are primarily in our Pyron product line, which are our intermediate products that go into various flame retardant and high temperature applications. We have not had a price increase similar to what we already had in our carbon fiber business, which we did not announce but we made it on an individual customer basis. So this was just catching up with our cost increase.

Peter Reiss: You had no negative feedback from your customers on the price increase?

Zsolt Rumy: No.

Peter Reiss: OK. Well, thank you.

Zsolt Rumy: Thank you.

Operator: Bill Gregozeski with Capstone Investments has the next question.

Bill Gregozeski: Hey, guys.

Zsolt Rumy: Hi, Bill.

Bill Gregozeski: I just want to confirm that you said the start-up problems you were having in Texas are not going to translate to the new lines in Hungary and then the eventual doubling?

Zsolt Rumy: No, it is just an unusual problem. It has to do with the quick ramp-up and also the lines being idol for as long as they have.

Bill Gregozeski: OK. And then with the three wind mill companies, GE being the third, their announcement of the green initiative. Are you working with them at all or are they doing any testing with your carbon fiber?

Zsolt Rumy: Normally we do not respond to any sensitive customer information. But given our strong hold in this industry, it would be highly unusual if we were not working with them.

Bill Gregozeski: All right. Thanks, guys.

Operator: And now we will move to a follow-up from Lenny Brecken of Brecken Capital.

Lenny Brecken: It seems like your business is constantly going to expand as we go forward. What assurances can we have that you are going to eventually be able to absorb all the start-up costs that are incurring and will be incurred in the next 12 months so that you will become either profitable on an operating basis or a cash flow positive?

Zsolt Rumy: All I can say is that we monitor what our standard cost versus our actual costs are and how it is affected as we increase our volumes. We are tracking quite well on our center crossing. Once the start-up is behind us, I think we feel quite comfortable that we can reach our gross margin targets.

Lenny Brecken: OK. Since the demand is outstripping supply, can you describe what the current competitive and pricing environment is right now?

Zsolt Rumy: I think we covered this several times in the previous calls but basically we have some contractual agreements, which pretty well spell out the price and all of them have some adjustment capability to match our cost, or at least reflect our cost increases and also decreases for that matter. We also have some spot activity in which customers have materials on a non-contractual basis and their prices are significantly higher than the contract prices.

We try to be somewhat fair for others and we do not want to kill the golden goose. We do have a strategy, which is to introduce carbon fibers into the commercial world. We do not want to totally abuse our ability to increase prices but we certainly do increase them significantly over our contract prices.

Lenny Brecken: OK. And has the competitive landscape changed in that it must be a pretty attractive business to attract new competition. Is there anything changing in that landscape at this point?

Zsolt Rumy: Not really. I think the barrier to the entry is fairly significant. And even if one of our competitors would announce a sudden increase in volume or change in their business model, it would be two to three years before any affect in the marketplace. So basically our ability to increase capacity faster than anybody else should give us an advantage over other people going forward. And having said that, I'm sure there is going to be competition in time. Based on our objective and what the market looks like for the future, I am sure we will have some direct competition essentially against our own strategy. But I don't think that is going to happen in the next six to nine months or even a year or two years.

Lenny Brecken: Yes. So the execution is key at this point.

Zsolt Rumy: Exactly.

Lenny Brecken: All right. Thank you very much.

Zsolt Rumy: Thanks.

Operator: And we have a follow-up question from Steven Osborn of Fragramatics.

Steven Osborn: Yes. I'm not saying that I'm happy to find out that it would be highly unusual that we are not working with GE. I have three unrelated questions.

First of all, in your opinion, what is the fiscal blade length limitation of the windmill blades -- 200 feet, 250, 300 feet?

And I know that we were talking about two non-core business lines that we were considering selling that might alleviate some of the cash requirements for the future expansion program.

And number three, when can I order my BMW M-series from my local BMW dealer that is going to have Zoltek carbon fiber in it?

Zsolt Rumy: OK. If I would put an arbitrary number, 35 to the maximum 40 meter blades -- more are 35 meter blades, are the limit for that. Carbon fiber blades are longer, someone is working on 90 meters long. You know what a meter is. It is approximately three feet. So you are talking about 100 to 120 feet as the maximum for glass. And then 90 meters, which is almost 300 feet long, is the kind of blades that they are working on with carbon fibers.

Occasionally you might hear of someone building a longer glass blade. But what happens is the longer it is, the heavier it is. And consequently, it is not feasible for the overall design for a windmill when you get to be as heavy as glass has to be. And even then it would have a limitation of around 50 meters, which would be excessively heavy.

Non-core products, we are still working on those. We are pricing our way out of one of them. Meaning increased prices until we are able to essentially get out of them. I am not sure if we are going to have a buyer on one product. On the other one, we still have an active buyer interested in the second non-core business, so we should be able to dispense with both of them by the end of this fiscal year.

And BMW -- the M-6 has some carbon fiber parts on it. They should be coming around to dealers sometime soon, I think.

Kevin Schott: Might have to ask your dealer about it but it is a very high-end sports car…

Zsolt Rumy: I think it is already out there.

Steven Osborn: I'm talking about the whole frame and everything.

Zsolt Rumy: Well, we hear rumors that it could be a couple years.

Steven Osborn: Well, I told him to go ahead and put me down for the 2008 model and I knew it would be available in black for sure.

Zsolt Rumy: You are going to have the second one at best.

Steven Osborn: Thank you.

Zsolt Rumy: Thanks.

Operator: And now a follow-up from Tom Dehudy.

Tom Dehudy: Just one more question on pricing. I understand the long-term strategy to develop the market but, on the other hand, clearly all your input costs have gone up substantially. Why can't you get a markup beyond that so that you can generate cash sooner and reach profitability on an operating basis sooner?

Zsolt Rumy: We do. Even our contract price is adjusted for all of our cost increases. The reason we can't seem to get a whole lot more is as long as most of our shipments go to the contract customers, our ability to sell outside of contracts is limited. So I think we are suffering a little bit there. And as soon as we get things moving, I think we will sell more and more into the higher price customer base.

Tom Dehudy: But does that mean you have to wait until those contracts roll over or are you talking about totally separate markets from your larger applications?

Zsolt Rumy: No, I think the contract prices reflect an increase in cost. And non-contract prices are higher than that. But, you know, a contract price is a contract price and you can't change it anytime. But again, in the contract price, we are reflecting the much higher prices relative to the cost increases.

Operator: Anything further?

Tom Dehudy: Well, just one follow-up to that. Is there any timeframe where we will see some of that flowing through in terms of margin?

Zsolt Rumy: Well, I think two things. Obviously, as we improve our operations in Abilene, you will see two increases. One is, you will see some reflection of higher prices. And secondly, you will see higher volumes to decrease the cost and absorb more of the overhead.

Tom Dehudy: Thank you.

Operator: And we will take our final question today from Lenny Brecken of Brecken Capital.

Lenny Brecken: Mr. Rumy, am I to assume then that the core opportunity, above and beyond some non-frame parts, if I want to call it that, is out a couple years? And if so, what do you need to do to tackle and penetrate that segment? The frame ...

Zsolt Rumy: You are talking about automotive frames?

Lenny Brecken: Yes, absolutely. Right.

Zsolt Rumy: I think that the M-6 model has about five carbon fiber components. They all have our products in it. And this reflects BMW's approach of putting new parts in to see how they can coordinate the carbon fiber parts with the rest of the assembly. I consider that to be a significant success because the first real assembly line type car that is going to use the same parts for the structural components to do a full carbon fiber car. Again, rumor has it that in two years they will announce the model that will do somewhere in the neighborhood of about 150 cars per day. And that will have significant carbon fiber components.

This is not official yet or we do not know any more information than this. But definitely the development work is successful and what they are obviously working on is the ability to increase the speed of production and also the assembly work. So that has all been very positive. There is really no deterrent at this moment for the use of carbon fibers. And frankly, we could not handle all that business in less than two or three years based on what we project for our other businesses. We have got to expand significantly in order to get the BMW business if they ever decide to significantly increase their volume.

Lenny Brecken: So, Mr. Rumy, it is more of an assembly line issue on the car manufacturer’s side? It's not a quality or price issue at your end?

Zsolt Rumy: No, the performances are phenomenal. The whole developmental work has been very successful and the only thing that is of concern is the process.

Lenny Brecken: All right. Is there any plan then to take the whatever-parts are already in the BMW to move it into other production lines? Is that in your demand budget for the next 12 to 18 months or...

Zsolt Rumy: Yes, I think we are working on that with BMW and we are also working with several other car companies. I don't have anything to announce as far as what is going to happen, but clearly this is a very interesting area for mostly European customers, I might add. The U.S. companies have not been receptive.

Lenny Brecken: Yes, Mr. Rumy, we know they are asleep.

Zsolt Rumy: Yes.

Lenny Brecken: All right. Thank you.

Zsolt Rumy: Thanks.

Operator: And that does conclude the question and answer session. I will turn it back over to your host for closing remarks.

Zsolt Rumy: Thank you very much for your participation and I hope this financial thing is going to work its way out so that we can clearly continue to report what we are doing and get this behind us. Thank you very much for your patience.

Operator: And that does conclude your conference for today. Have a great day.

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