ZOLTEK COMPANIES, INC.

Moderator: Zsolt Rumy
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Operator: Good day, everyone and welcome to Zoltek's Fourth Quarter 2005 Earnings Results conference call. As a reminder, today's call is being recorded.

And now 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: Thank you, Miranda.

Welcome everyone. Miranda tells us that there are 46 participants. That is by far the largest interest that we have had in our conference call. So, we will try to give you an abbreviated presentation and leave time for questions-and-answers after we are done.

To begin with, let me turn the telephone call over to Kevin Schott, our CFO, who is also obviously with me and he will give a very short recap of our finances and also read the required disclaimer.

Kevin Schott: Good morning, everyone. First of all, let's take care of our legal obligations and we will move forward from there.

This conference call contains forward-looking statements that are based upon the current expectations of the Company. Because these forward-looking statements are inherently subject to risks and uncertainties, there are a number of factors that could cause the Company's plans, actions and actual results to differ materially. Among those factors are the ability to increase the efficiency level at its Abilene facility to meet the current order levels for carbons fiber successfully; add new capacity for production of carbon fiber and precursor raw material; execute plans to exit the specialty business and reduce costs; manage changes in customers' forecast requirements for the Company's products; continue investing in application and market development; manufacturing low cost carbon fibers and making them profitably; timing and occurrence of or nonoccurrence of transactions and events that determine the future affects of these factors on the Company as well as other factors that may be beyond the control of the Company. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of this conference call.

Real briefly, I am not going to try to regurgitate a lot from our 10-K. Given the timing of our conference call, I think everyone has probably had a chance to review it. I will hit a couple of highlighted areas where I think you might have some questions.

Sales for the year were up substantially, which has been the theme throughout fiscal 2005. On the fourth quarter verses the third quarter, our sales were down somewhat. That related to two things — one, our carbon fiber production for the quarter was flat compared to our third quarter. And due to some timing of billings related to our aircraft brake business, we did see a drop-off in our technical fiber business between the third and fourth quarters of this year.

One thing I want to state before we get into anything else is that we did discontinue another business in our Hungarian operation, our Mavibond/CMC business, during the fourth quarter of fiscal 2005 which changes the presentations reflected for that business in our 10-K. So, if anyone is trying to roll quarters from third to fourth quarter, the presentation is different related to that business. And if you look in the back of our 10-K, there is a quarter-over-quarter reflection at a very high level of sales and operating income and those types of things based off the new presentation with the Mavibond business as a discontinued operation.

Our operating loss was up from the prior year. Again, if you read throughout our 10-K, you will note that we had some inefficiencies in our post-startup operations in our Abilene facility which caused significant negative changes to our operating income for this year, along with some one-time costs related to becoming Sarbanes-Oxley compliant. A significant amount of that did get charged in our fourth quarter of fiscal 2005.

On our cash flow basis, our operating cash flow is basically an exact reflection of our operating income, right about a negative $8 million. A couple of highlights I would like to talk about are our inventory levels, which I know everyone has concerns about. Our inventory overall dropped by 1.2 million compared to 2004. However, there was a change in the mix of that inventory. Our finished goods inventory dropped by 6.7 million compared to 2004, and that really is due to two things. One, we have some significant increases in sales of our milled and chopped products, which is inventory that has been around for a few years, and we have shown a significant drop in that inventory. The other reason is the discontinuing operations of our business in the Hungarian operations during 2005.

We did increase our raw material inventory significantly. However, that relates to our precursor buildup to keep supplying our carbon fiber lines in Abilene and our new carbon fiber lines that are coming on line.

Capital expenditures for the year were about $15 million, which was an increase of about $9 million over prior years. Again, reflecting, as we have said in prior conference calls, our expansion of new carbon fiber lines and precursor capacity in our Hungarian operation.

In the fourth quarter we actually had the largest quarterly capital expenditure for the year with $5.8 million. The Company believes that the capital expenditure will be at least that much per quarter, if not more, going forward as we continue to build our expansion over in our Hungarian operation.

The last thing I want to hit on is our financing package at the end of September. It was a $50 million convertible debt deal. The first $20 million was funded in two parts, one towards the end of September, and one at the end of November, which is convertible at $12.50 per share with warrants at $14.50. We have the ability to draw down the additional $30 million as the shares from the first piece have been registered. The pricing on those will be at market price with warrants attached to them that will be at market plus the 15% premium.

Again, these are just some quick, brief highlights. I am going to turn it back over to Zsolt. I will be more than happy to answer questions after Zsolt finishes talking.

Zsolt Rumy: OK. Thanks, Kevin.

Just want to reiterate that the exit from the CMC business in Hungary is the last of the significant business units that we inherited with that acquisition, so from this point forward there is only one piece of business left, the Netlon business. There are several people interested in acquiring that business and we are trying to work a deal. We think it is probably going to actually show a book profit as we dispose of that portion. There is also a thermoplastic compounding business which we will exit but will probably absorb the equipment and business unit into our carbon fiber business. That is a major step forward for us because these operations were very costly, and I will talk a little bit about some of the benefits of getting rid of these operations.

The key to our operations is the Abilene plant which continued to be a drain emotionally, financially, and in every respect. If the Abilene plant start-up had been smoother and more efficient, we probably would have actually made an operating profit this year.

What happened after September, as the situation became intolerable, is that we brought in some expertise from our Hungarian operation at some risk, because they were going into some startups in Hungary right about the same time, but we had to do something. This move turned out quite well. November turned out to be a record month and December was even better, despite the fact that there were really 10 holidays that normally would be a concern for operations. So, we still had a better December than November, which was the best month we ever had in Abilene.

The current status is that we have three of the five lines running reliably and close to capacity, with the fourth and fifth lines are to commence operation later this month or in early February. The lines are operational and have

actually been running. It is a personnel hiring and training problems we have been experiencing and I think we are finally very close to having the right staffing.

Of course, with this many problems for a long time in Abilene, you have to wonder what is going to happen there? I think that we have found that Abilene has no manufacturing base, and so basically everyone that we hire not only do we have to train to operate our facilities but we have to train them to be factory workers. This puts additional burden on us in hiring and maintaining our staffing, but I think creating a critical mass is much more difficult than maintaining it, so I think we will definitely have a much better operation going forward in the long-term as we increase our management capabilities and our staffing. On the other hand, we will probably not look for Abilene to be as big a facility as we originally had planned.

The bright star or shining star in our strategic plan has been the Hungarian facility. During last year, all the lines that were available were running well, close to capacity. We had expanded capacity late in November, with startup in December, and we are actually making shipments from these facilities. We doubled our current capacity with two Panex carbon fiber lines and one Pyron line. All of them came-up without a major hitch, and I think that is very significant proof that the Abilene problems are not technical, but they were personnel issues. The new capacity in Abilene, as well as in Hungary, will have a major impact in this year second quarter performance.

The other thing in Hungary is that after we discontinued all of the old operations, we are doing all kinds of work in streamlining our plant. Basically, the original plant was a totally integrated complex. All of the units were dependent upon each other, and also at one point or another, we actually provided heating steam, sewage treatment and water to the town. We are streamlining that operation and making it more efficient which will have a significant cost impact, again, sometime during 2006.

The other significant thing we are going through is a 10 million pound carbon fiber expansion, which is already underway. We expect half of that to be completed in the May/June timeframe, the second half by October/November timeframe. And in addition to that expansion, we are also doing some support equipment, like Pyron fiber processing expansions both in Hungary and in the US.

The other operating aspect is that we are developing a strategy to increase our value added products and we will continue to allocate some of our carbon fiber production to support these woven fabrics, pre-preg and other operations. And in addition, we will also begin an R&D center at the Hungarian facility.

The continuing bright news is, of course, in sales and marketing. Sales continue to be very strong. There is an overall shortage in the marketplace, and we see this continuing through the next several years. We are allocating our production and trying to keep as many customers happy as we can. We have had some problems, but most

people are patient and they see our progress and are optimistic about our supply. And, unfortunately, for most of them there really is no other option. We are the ones who bring on the capacity the fastest and, of course, everyone is waiting for the Abilene facility to start really producing at full capacity, which would immediately add some new capacity in the marketplace.

There was a change in our aircraft business. Not really a change, but the company supplying the precursor for the aircraft brake products went into bankruptcy in April or May of this past year. Recently private investors bought the company and it went back into operation as 'Fibers Worldwide'. We will have some impact, some positive and some neutral impact on our business. I do not think there is anything negative.

The aircraft brake business will never be the same. All aircraft manufacturers now require two sources, and this will affect our ability to convert everyone to our own precursor-based fiber. On the other hand, on the positive side, it might remove some pressure from our requirement to increase our precursor facility as fast as we expected if we can use some of the acquired precursor.

We still expect to maintain our significant increase in market share and we continue to have our own precursor qualified by every manufacturer. We see this as a permanent change, and I think we will maintain our large market share in that business.

Looking forward a little bit, the outlook for 2006 and beyond, I see continued growth in demand. As I mentioned before, the divergence of commercial carbon fibers from aerospace is going to continue, which I think will give us continued opportunity for expansion. Eventually, we need to expand into the Far East. We are not doing anything concrete on that yet, but I think it is certainly on our radar screen.

Ongoing on the financial side, we will continue to have capital expenditure requirements. Our last round of convertible financing will fund the current expansion. I would have preferred to have a secondary offering but felt that this deal was faster and less dilutive in the end. Again, I am hoping that this will be the last.

We mentioned something in our 10-K that I want to bring attention — we have an agreement with the Hungarian Government for significant support of 14.5 million dollar grant which they will give us to modernize our facility and support our expansion. We are finalizing an actual contract. The framework of the agreement, so to speak, has been agreed upon and signed, and we are working on a finished contract. This is really welcome news because the facility will look better and we will be more efficient because we will have this money to invest in it.

And, obviously, the number one and most important objective this year, which I am very confident about, is that we will be profitable this year. I think that completes my comments. I would like to open the call for any questions that anyone may have.

Operator: Thank you, Mr. Rumy.

The question-and-answer session will be conducted electronically. If you would like to ask a question you may do so by pressing the star key, followed by the digit one on your touch-tone phone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star, one on your touch-tone phone to ask a question at this time.

And we will take our first question from Robert Silvera with Jo N Bo Construction.

Robert Silvera: Hi, Zsolt.

Zsolt Rumy: Hi, Robert.

Robert Silvera: Zsolt, I missed the first few minutes, so if this question pertains to what you said in the first few minutes then forgive me. But my question is - at what point level of dollar sales or unit sales on the tonnage do you see the company crossing over from losing money to making money?

Zsolt Rumy: I think the comment that I made regarding that is our expenses in Abilene have been so tremendous over the entire year, and if the startup had been smoother, we could actually be profitable now. So, I think we are at that point with Abilene coming on a little more smoothly with additional production and the Hungarian facility is coming on with additional production as well, we are poised for profitability.

Robert Silvera: Wonderful. OK, you made mention in the press release, too, that the customers are open to and have received acceptable price increases. When you institute a price increase, obviously you have contracts and you have lag time before you actually are shipping at a higher cost. Approximately what is that lag time?

Zsolt Rumy: Well, most of the price increases go into effect as of January 1, and all of our contracts have a provision for price increases reflecting some of our cost increase. Also, the market price in general has gone up significantly, so our advantage in the commercial area is still significant and there is room to increase prices. Some people are even willing to give us a higher than contact price if we can ship them more. So, I think there is a supply and demand issue as well as a legitimate cost increase to justify our pricing. Again, most of them take effect January 1, 2006.

Robert Silvera: OK. So, you had a lag time of about one month?

Zsolt Rumy: I think you will see the impact in the second quarter.

Robert Silvera: Right, because you have just ended your first quarter.

Zsolt Rumy: Right, that's correct.

Robert Silvera: That is all of my questions for the time being. Thank you, Zsolt, for all of your hard efforts.

Zsolt Rumy: Thank you.

Operator: And our next question comes from Frank Barresi with Stifel Nicolaus.

Frank Barresi: Hi, Zsolt. A couple of questions, if you could? And I also got on the call just a little bit late. I have talked to Kevin in the past - by the way, hi, Kevin.

Kevin Schott: Hi.

Frank Barresi: I talked to Kevin about this a little, too. In terms of the competition of more supply coming online, when do you think that will have an affect, in your opinion? And is there any technology that would change business in any of your markets that you saw, good or bad? And, a third question, was just...

Zsolt Rumy: That's more than two questions.

Frank Barresi: You only get two? OK. Well, I will just ask the third and see what happens. The third question was just a status on how many lines in Hungary are doing what? Kevin mentioned all the new lines are coming on in Hungary, so that was it.

Zsolt Rumy: All right. Competition - basically, there are a number of announced increases in capacity. There are two thoughts, one is that some of the lines coming on will take time to qualify into the aerospace market and, therefore, they may dump more products on the commercial market. I am not too concerned about that, and that would only apply to 2007 anyway. Based on our expansion plan, we are going to be short unless we increase our capacity in 2007, as well as in 2006, just to maintain our existing business in 2007. So, I do not see any new capacity coming online that will impact our ability to sell our new capacity.

On the technology side, as it relates to the competition, what happened to us when we first showed our strategy is that the existing carbon fiber manufacturers reacted negatively given most of the big ones were Japanese manufacturers. They tend to protect their market share. Basically, they lowered their price to the point where we could not compete with them, and given we have a commercial product versus aerospace, it was very difficult to

sell our products against them at the same price or even to try to get more for it. That is what killed us for four years and really gave us a tremendous amount of hardship, which we will be addressing later.

But to make a long story short, the current situation is that we spent a lot of time, effort and money, including development of our own processor, to get our carbon fibers up to similar performance levels as the aerospace fibers. Although it still requires different handling and treatment, but we can get the same performance out of our fibers as aerospace companies do on the standard aerospace products. I do not see them coming up with any new technology that would interfere with our growth.

As far as status of the lines, as I mentioned, in Hungary we had two carbon fiber lines and now we have four. We are putting in larger lines for the next expansion so we will have eight new lines, each one producing about 1.25 million pounds over the next calendar year. Total we will have 19 million pounds capacity by the end of this year. We also added an additional Pyron line, so now we have two Pyron lines in Hungary and essentially two Pyron lines in the U.S., which is a total of about 8 million pounds of Pyron capacity.

Frank Barresi: And so, you aren't that concerned about getting enough people to operate eight additional lines in Hungary? You don't think it will be the same issues you had in Abilene?

Zsolt Rumy: Not the same issues. I think we have some good news, bad news. We probably have more people in Hungary than we need, so marshalling them into productive areas and into carbon fiber is going to be a little easier. There is more substance there, more critical mass in the Hungarian facility. So, we need to hire about 20 people per line. We are looking at about 200 people plus management we have to hire and train in the next year. It is not easy, but it is certainly not the kind of difficulty that we experienced in Abilene.

Frank Barresi: OK. And in technology, I saw that there were some guys that came up with changing the shape of the fibers to dog bone shape. And I mean was there any, you know, plans because you were starting a technology center, which I guess is emphasizing applications, or?

Zsolt Rumy: Yes, both the manufacturing and applications technology.

Frank Barresi: OK. So there is not anything right on the immediate horizon that would help reduce costs?

Zsolt Rumy: No, I believe we are leading the low cost production and consequently our ability to compete. Again, we are looking at our overall businesses not competing against carbon fiber manufacturers but more to compete against other materials. And, of course, within that competition obviously we compete with other manufacturers, but I do not see any new technology coming on from anyone in the business. And, furthermore, if anyone came up with

anything new or anyone wanted to come into the business at this moment, it would take several years to really implement any significant changes or build new facilities.

Frank Barresi: OK, great. I'll let someone else ask some questions. Thanks a lot.

Zsolt Rumy: Thanks.

Operator: Our next question comes from Peter Reiss with Paulson Investments.

Zsolt Rumy: Hi, Peter.

Peter Reiss: Hi, Zsolt. It is beginning to sound like things are beginning to gel for you. I have a couple of questions. Looking forward in 2006 and 2007, how would you break down your markets between windmills, autos, bedding, construction, or anything else that I don't know about?

Zsolt Rumy: Well, I think 2006 and 2007 both will be significant in wind energy. We are right now supplying most of the wind energy carbon fiber needs, and we want to maintain a very high market share. So, I look at 50% of our carbon fiber going into wind energy probably for the next two years.

Construction is coming along fairly strong. We're looking at the C-grid, the pre-cast concrete group, and they are projecting fairly high requirements. We have tremendous requirements built into sporting goods, although we are staying away from that because it is a little too competitive. Compressed natural gas is also big. And probably the biggest horizon for a new application, even before the auto industry picks up, is deep sea drilling. If oil prices stay up anywhere close to where they are, or let's say anything north of $30 a barrel, I think the deep sea drilling activity is going to increase tremendously. As people are finding more and more needs for carbon fiber, deeper and deeper the drilling goes. So, there are huge initiatives in those areas. I would also say the auto industry will probably kick-in big time after 2007.

Peter Reiss: I see BMW is introducing a car with a carbon fiber roof. Is that your development?

Zsolt Rumy: It is partly our development. On the M-6, there are several parts that are ours. There is a bumper guard and there are internal structures - I think about five or six parts - including the structural part on the roof. There is a decorative surface on the roof that is like a 6,000 filament woven fabric that gives you a see-through fabric appearance, and that is not ours. But the underlying structural part is.

Peter Reiss: I see. And the last question I have is I am a little bit confused, has your processor been qualified for aircraft brakes or is that still an ongoing issue?

Zsolt Rumy: Some customers have qualified it and others are qualifying it. One customer is 100% converted to our precursor based fibers at the moment. They will probably develop a second source either through Fibers Worldwide or maybe their previous supplier SGL may come up with someone else's. We will probably not have 100% of that business for a long time but we do have it now with our precursor. And so every other manufacturer is in the process of looking at our precursor and we will convert some of their programs.

Peter Reiss: All right. One last question, are you supplying all of your needs with your precursor, or do you still having to buy outside?

Zsolt Rumy: Everything that is carbon fiber is our precursor. We have started to buy small quantities of the Fibers Worldwide material for some of the brake programs.

Peter Reiss: So then are you the only company that is so integrated or are there others?

Zsolt Rumy: We are the only one who integrated in the commercial carbon fiber business. All of our aerospace competitors are all integrated.

Peter Reiss: Right. OK, thank you. I'll let you go.

Zsolt Rumy: Thanks, Peter.

Operator: Our next question comes from Preston Foulks with Premcor Financial Services.

Preston Foulks: Yes, Preston at Premcor. The last caller asked a lot of my questions. In the last couple of years we have been hearing about Texas and Hungary, but I was wondering if you are having trouble in Texas, what is going on with the other U.S. facilities?

And I also wanted you to touch on automotive. I know BMW has been something you have been working with a long time. I was wondering about other automotive companies or BMW is making door panels or bumpers, or what areas of the car would you be concentrating on for future growth?

Zsolt Rumy: Other than the Texas and Hungarian plants, we have a St. Louis facility in Missouri Research Park that is primarily dedicated to the aircraft brake business. So, we generally do not talk about that operation because it was our first facility and has been running smoothly for some time. We are putting more secondary production into that facility, but generally, it is well managed and under pretty good control.

On the automotive side, we talk a lot about BMW because we have a development contract with BMW. BMW continues to be the only car manufacturer that seems to be committed for the full assembly, serious carbon fiber car on the marketplace. On the other hand, we are dealing with a number of other car manufacturers through value added suppliers, pre-preg suppliers and SMC compound suppliers, and our fibers have been looked at and used in a number of other applications. But that market continues to be one of our target markets.

Preston Foulks: Well, on your facility side, if you are having trouble with finding qualified workers for Texas, are you looking to expand other U.S. facilities or build in other areas in the U.S.? And my last question would be six years ago price was a very big issue. I was wondering the comparison of steel versus carbon, if you're reaching your goals? And how the competitiveness of carbon and steel are getting closer together, or what will you have to get to, to have it not be a big issue of steel versus carbon?

Zsolt Rumy: Well, very quickly, on the facility side, we are going to have our hands full with the expansion this year. And as I mentioned in the report, we are looking at expanding potentially to the Far East. We do not have any specific plans either for the Far East or for another facility in the United States at the moment, but it is on our planning radar screen, so to speak.

As far as the competitiveness with steel, I think each application is a different criterion. If you look at wind energy, for example, the driving force in wind energy is increased blade length because the amount of energy that you can generate is the square of the blade length. So, if you double the length you quadruple the output. And so light weight and stiffness are the prime factors in developing a longer blade and carbon fibers become the enabling material.

So, at the moment there was really nothing else that could do the job anywhere remotely competitively to carbon fiber, and particularly if they can be more competitive than aerospace fibers, it makes a huge advantage to the wind turbine manufacturer.

The other thing is in the area of deep sea drilling. They are going to the depths right now where steel cannot support its own weight, so it becomes not so much a question of competing with it; it is the question of being an enabling material to actually do that kind of project.

In the automotive industry, people are still talking about performance enhancement and also decorative uses of carbon fibers. If oil prices continue, energy conservation is going to be much more important. At that point, competitiveness is more again on the enabling material rather than dollars per pound but dollars per stiffness or dollars per strength.

So, I think each application has its own criteria, but nevertheless, our prices have now risen significantly from our objectives. As I think I mentioned in the last call, the $5 selling price objective that we had in the old days, is really now more like $7.25 based on our costs, which ironically are mostly related to the energy costs.

Preston Foulks: OK. Are you looking out for more developments throughout the year?

Zsolt Rumy: Yes.

Preston Foulks: Good luck.

Zsolt Rumy: Thanks.

Operator: And as a reminder, it is Star-One on your touch-tone phone to ask a question. We will take our next question from Chris McDonald with Kennedy Capital.

Chris McDonald: Good morning, gentlemen.

Zsolt Rumy: Good morning, Chris.

Chris McDonald: A couple of questions for you. With the Abilene facility coming online fully in the next couple of months, would you expect the costs that you report under available unused capacity to go to zero in the next quarter or two? Is that a good assumption?

Zsolt Rumy: Yes.

Chris McDonald: OK, great. And just so I understand the timing on the deep sea drilling market, is this a market that represents a significant part of revenues at this point, or is it a year or two out? Maybe you can just add some color there?

Zsolt Rumy: Nothing really significant in the past year, but it will be significant in 2006. We have some significant projects that were relatively significant even in 2005. The old application that is now virtually exploding for us is the buoyancy market. Basically what they do is take some existing equipment and drill platforms, pipes and whatever, and put a big life preserver on them. They use our carbon fibers to make resin encapsulated spheres that have air inside the spheres, which give tremendous buoyancy. They attach these big buoyancy structures to steel to hold it up. That market really did explode for us in the second half of 2005 and it continues to be significant going forward.

More interesting, we recently signed an agreement with Kaeverner, one of the biggest deep sea drilling supply companies, and they produce the umbilical cord where they take all the control wiring and pressure pipes and everything down into the wellhead. That is now using carbon fibers and we will be supplying the fibers for the initial significant project, which is under way now.

There are other significant projects like tethers to hold the platforms down, which is like a twisted rod of carbon fiber reinforced material. And also the piping or choke line is now partially being made out of carbon fibers, as well as the drill pipe, which also will be manufactured out of carbon fiber. There are a lot of opportunities in some of the superstructures and platforms as they may very well be out of carbon fibers. So, this really can grow very rapidly, almost like wind energy.

Chris McDonald: OK. And last question, forgive me if you addressed this earlier, could you briefly explain the drop-off in the technical fibers revenue in the fourth quarter versus third quarter this year?

Zsolt Rumy: Really nothing other than just the timing of the invoices and nothing related to the market, so I would not read anything into that.

Chris McDonald: OK. Thanks, guys.

Zsolt Rumy: Thank you.

Operator: We will take our next question from Dave Schroeder, a private investor.

Dave Schroeder: Good morning, Mr. Rumy.

Zsolt Rumy: Good morning.

Dave Schroeder: Excuse me if I ask some stupid questions as a novice to these phone operations. But I was wondering as you use this $50 million line that you had obtained in September, are you going to consider increasing shares outstanding to raise more capital if you need it? And the second thing, you said you were in the bedding line and also in the sporting goods lines, what are you actually manufacturing in those two lines?

Zsolt Rumy: OK. On the shares, what we are trying to do is minimize the dilution and raise capital for the expansion. In order to do a public secondary offering, it is priced at what the share prices are during the offering. It is anticipated that the offering will have a negative affect on the share price during the offering, and so on and so forth. Given that consideration, we felt that convertible debt is done at a higher share price, quicker and less dilutive at this

time. Although it may put a restraint on us in the future as we raise capital in the secondary market if the share price does not increase beyond the convertible price.

So, we are looking at this all the time, and as long as our market grows, the capital expenditure is going to be part of our future. We always try to minimize the dilution every time we raise capital. As long as our business increases and once we return to profitability and the profitability continues to grow, then our increased shares are acceptable. Obviously, increased shares to cover previous losses or anything like that is not a good thing and we will definitely not do that.

As far as the markets in bedding and sporting goods, bedding has been kind of disappointing, but we do a lot of work with various fire and flame retardant applications in automotive, protective clothing and some bedding applications. This is our Pyron product. We basically do not make anything; we just sell our fibers or value added products, like felts and fabrics, into these flame and fire retardant markets.

Similarly, in sporting goods we do not make any sporting goods in finished products, but we sell carbon fibers into this market where people use it to impregnate it with resin and then roll it into golf shafts and various other products. We also sell some pre-impregnated fibers ourselves.

Dave Schroeder: I know manufacturers of windmills are one of your big lines. I was thinking about the configuration of a windmill and it reminds me of a boat oar. I was reading somewhere that there was a high demand for boat oars. Have you ever considered getting into the manufacturing of boat oars?

Zsolt Rumy: Well, one of our older and most loyal customers virtually has a lock on the Olympic oars for kayaks and canoes, so we are involved with that significantly. Unfortunately, it is not a large business because a few pounds of the carbon fibers go a long way in making those oars. But we are involved with them.

Dave Schroeder: OK, that is all the questions I had, and thank you very much.

Zsolt Rumy: Thank you.

Operator: We will take our next question from Charles DiBenedetto with CCD Investing.

Zsolt Rumy: Hi, Charles.

Charles DiBenedetto: Congratulations on the fact that you are meeting all your dreams with increased demand for your products. It is wonderful to see it coming into fruition. With regard to fiber production, can you give us an idea

what your projections are as to what percentage of the production will go into autos for 2006 and 2007? I realize it is in infancy right now but can you make some sort of projection?

Zsolt Rumy: We are not supposed to make a lot of projections. But I can safely say that in 2006 and 2007 our auto market is going to be including some carbon fiber application, probably less than 10%.

Charles DiBenedetto: OK. And can Zoltek meet all the increasing demand for carbon fiber?

Zsolt Rumy: Well, I wish we could, and it is a real challenge for us. I think we are able to bring new capacity on faster than anyone else and we are trying to do that. I wish we could do more. I think it is a question of financing and ability to get the projects completed. The demand is going to continue to be very strong because there is going to be shortage for at least two or three years, if not longer. But this is a real concern for me personally because part of the growth and the whole concept we have is to be able to support commercial development. I am really concerned and we are watching this very closely so that we do not turn-off some people from continuing with development of carbon fiber products because of the shortage. We are doing our best to try to keep as many people happy as we can.

Charles DiBenedetto: All right, one last question. I understood demand continues to increase and outstretch the ability to supply carbon fiber. Are you in a position to increase your prices that you quote on carbon fiber?

Zsolt Rumy: Of course we are and we are doing that now to an extent. I think it is kind of a chicken-or-the-egg routine in that we try to compete with other materials. We are trying to be sure not to out-price our product to the level where applications get turned off. But at the same time, we are obviously committed to having a profitable operation and we have a business model on what our pricing needs to be versus what our costs are to support the capital expenditure. I hope that answers your question.

Charles DiBenedetto: Yes, thank you Zsolt, and keep up the good work.

Zsolt Rumy: Thank you.

Operator: And as a final reminder, it is Star-One on your touch-tone phone to ask a question. We will take a follow-up question from Robert Silvera with Jo and Bo Construction.

Robert Silvera: Hey, Zsolt?

Zsolt Rumy: Yes, Robert.

Robert Silvera: As a point of interest, Mitsubishi has a small little hotrod that they are selling called the Evo. I saw one the other day in Florida. It has a rear wing that is obviously carbon fiber, and I wondered if you were involved with that at all because that is another manufacturer other than BMW.

Zsolt Rumy: Not that one, to my knowledge. And I will say that sometimes we do not know where our products end up. But I am not aware of this particular one.

Robert Silvera: OK, you can check it out. It is with Mitsubishi. The other question I have is in the oil services industry, are they trying to develop carbon fiber in any of the deep applications that involve either drill rods or sucker rods?

Zsolt Rumy: Yes.

Robert Silvera: Have they done anything successfully, for instance, in sucker rods?

Zsolt Rumy: Yes.

Robert Silvera: And you are involved?

Zsolt Rumy: Yes.

Robert Silvera: Hallelujah. OK, those are my questions. Thank you very much. That has one heck of a future, if you can get sucker rods because the economics of bringing the oil up out of the ground from old wells just escalates greatly with lighter rods rather than steel sucker rods.

Zsolt Rumy: Right.

Operator: We will take our next question from Michael Kurran with Wachovia Securities.

Michael Kurran: Thanks very much. And the first question - I came on the call late - do we have a recording?

Zsolt Rumy: No.

Michael Kurran: If any of these questions have already been addressed, just forget it. I have colleagues on the call in other cities that will brief me.

Zsolt Rumy: I might just add that we will have a transcript on our web site in a few days.

Michael Kurran: First off, could we talk just a bit about the $50 million financing? I know that for all intents and purposes it is earmarked to expanding capacity with Abilene etc., is that true?

Zsolt Rumy: Actually all of it essentially goes to Hungary.

Michael Kurran: It goes to Hungary?

Zsolt Rumy: Right.

Kevin Schott: Correct.

Michael Kurran: OK, there has been some chitchat about the Abilene openings being problematic. Have you already talked about that?

Zsolt Rumy: Yes.

Michael Kurran: OK.

Zsolt Rumy: We are dealing with it and I think we are on the final leg of making that a good operation.

Michael Kurran: Very good. And as it relates to Hungary, which is a good running plant, you are throwing the money where you know it can be put to good use quickly?

Zsolt Rumy: Yes, and in addition to that, a lot of our markets now are European so we can supply the Asian market from both the U.S. and Hungary. The European market for wind energy is the fastest growing market right now for us.

Michael Kurran: Very good. And at the end of the fourth quarter or the December quarter, are we a calendar year company?

Kevin Schott: No, September.

Michael Kurran: At the end of the December quarter, how much cash do we have on the balance sheet, more or less?

Kevin Schott: From a guessing perspective, probably around $10 million to $12 million, which includes a line of credit with a bank.

Michael Kurran: That gives affect to the $50 million recent financing?

Kevin Schott: We did not take all of the $50 million; it comes down in pieces. We only took $20 million down.

Michael Kurran: Oh, very good, $20 million. So shall I assume we have $30 million in capacity?

Kevin Schott: Yes.

Michael Kurran: Very good. And what are the capital expenditures for calendar year?

Kevin Schott: We did about $5.8 million in our fourth quarter fiscal year and we expect that to be at least that much or greater going forward for this year.

Michael Kurran: OK, so at the end of the crossover where we are cash flow breakeven hopefully then turning into cash flow positive with some profits, you do not feel you will have to draw-down the full $50 million?

Zsolt Rumy: I think our capital expenditures will require that and we also have an additional $14.5 million grant that we will be receiving from the Hungarian Government. So, I think our capital expenditures will require...

Kevin Schott: Will require us to draw down the rest of the $30 million.

Michael Kurran: Very good. And the Hungarian grant is similar to American grants whereby we do not have to pay it back?

Zsolt Rumy: We have to perform against it, which is related to capital investment in Hungary, sales increase, export increase and job creation.

Michael Kurran: I got you. And, Mr. Zsolt, in my conversations with Hexcel, they took great pains to inform me that there are two different grades of carbon fiber. They call it the high grade and the low grade. Would you agree with that?

Zsolt Rumy: No, I would not. Two grades, but I would not agree with their definition.

Michael Kurran: Well, they are different, certain types of carbon fiber are used for certain things and other types of carbon fiber are not?

Zsolt Rumy: That is probably true, yes. I would qualify it as aerospace fibers and commercial fibers.

Michael Kurran: Very good, and those really are the two?

Zsolt Rumy: Yes.

Michael Kurran: They have two different prices?

Zsolt Rumy: Two different cost bases and two different prices, yes.

Michael Kurran: Very good. Are you in both businesses?

Zsolt Rumy: No.

Michael Kurran: You are in the commercial business?

Zsolt Rumy: Right.

Michael Kurran: Hexcel and Cytec, those guys are in the other?

Zsolt Rumy: Hexcel and Cytec in their carbon fiber business are mostly in the aerospace business. Their non-carbon fiber business such as value-added prepreg businesses and textiles, and as a matter of fact, the C-grid that we supply carbon fibers for is also a Hexcel company. They have a tremendous involvement and the last time I looked at their numbers, I think almost 40% of their business goes into commercial applications. And almost all of the carbon fibers in those applications they purchased.

Michael Kurran: Very good. And, Mr. Zsolt, I assume you have given the opening schedule for the domestic plants?

Zsolt Rumy: I'm not sure...

Michael Kurran: I refer to it as Abilene? You have a couple of plants you have mothballed to put some money, get them open, and get some production going?

Zsolt Rumy: Right, the Abilene plant is on its way to being completely operational. And by the way, you don't need to call me Mr. My first name is Zsolt and my last name is Rumy.

Michael Kurran: Oh, excuse me.

Zsolt Rumy: OK.

Michael Kurran: When you open a carbon fiber plant are there rigorous EPA issues? I know this stuff is kind of hard to work with. They have to cut it underwater and stuff like that?

Zsolt Rumy: No, not really. The biggest single EPA problem that we have is in the Nox, which is related to the high temperature incineration of our off gases. Part of the reason we located in Abilene was because these gases contribute to the smog in large cities. It is very easy to get a permit in a rural area or in small town.

Michael Kurran: OK, terrific. And I assume you have also talked about the year-end filing?

Zsolt Rumy: We are done.

Michael Kurran: OK, let me pause there. I think a lot of these additional questions you have probably already answered. Thanks very much.

Zsolt Rumy: Thank you.

Kevin Schott: Thank you.

Operator: And we do have a follow-up question from Peter Reiss with Paulson Investments.

Peter Reiss: Zsolt, I was just curious, what is your approximate cost per line to build?

Zsolt Rumy: Per line is a little less than $5 million, and if I add the precursor to go with it, it is about $6.5 million including precursor.

Peter Reiss: So, if you are going to add 9 million pounds this year, that is nine lines?

Zsolt Rumy: Eight lines, actually.

Peter Reiss: Eight lines, OK. So, that is going to be your capital needs?

Zsolt Rumy: Right.

Kevin Schott: Yes.

Peter Reiss: Very good. Thank you.

Zsolt Rumy: Thanks.

Operator: Mr. Rumy, there appears to be no further questions. I will turn the call back over to you for any additional or closing remarks.

Zsolt Rumy: Thank you again for participating. And I do think that we are finally at the crossroads of proving not only our strategy but also becoming a profitable business. Thank you very much for your continued support.

Operator: That does conclude today's conference call. We would like to thank you for your participation. Have a great day.

Zsolt Rumy: Thank you.

END