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## Ceradyne, Inc. Q3 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator instructions)

Your first question comes from Pierre Maccagno from Needham. Your line is open.

#### Pierre Maccagno – Needham

Good morning, Joel and Jerry.

#### Joel Moskowitz

Hi, Pierre.

#### Jerry Pellizzon

Good morning, Pierre.

#### Pierre Maccagno – Needham

So, could you give us a little bit of an explanation on the reduced shipments in '09 versus '08? Is that because there's a reduced demand or there's a change in market share? And also if you could tell us, in terms of the number of sets shipped per month, how much of that is that you expect in '09 versus '08?

#### Joel Moskowitz

Yes, I think that, as I stated, the decrease is almost solely attributable to body armor, even though we just got a \$2.3 billion ID/IQ order, the biggest we've ever seen. But really, what really counts is delivery orders and we're looking at it what I hope will be conservatively. But I think the best one to answer that question is the Vice President and President in the North American Operations who lives the armor game, Dave Reed. Dave?

#### David Reed

Hi, Pierre. Let me give you a little flavor for that. The last time we all spoke, we really were not under contract. We had passed some of the testing that would allow us to go into the contract base. So, as everyone is seeing, we are now officially under contract. We're one of three companies that will participate over the next five years on the XSAPI Program, so that's great news for us. We're very anxious to move ahead with the program. We'll be submitting first article parts this week. Testing

will take place over the next month, month and a half and then we expect that within that same time period, there'll be some kind of resolution of the protest.

To answer your question directly, it looks like the army itself, initial order is only for about 120,000 sets for the next year, and I think they're probably going a little slow because they have some nervousness about how the companies will perform on this new product. It's a very difficult product to make. It's really the next generation. It has to stop a much more demanding threat in the prior ESAPI product.

And I think maybe once the government gets through that first article testing and has a chance to look at the performance of Ceradyne and maybe our competitors too that they may be a little bit more bullish about rolling the product out, so we'll certainly be lobbying for that. We know for sure that this is a friendly fire issue right now. It's certainly the new ammunition that'll be showing up in the coming years on any battlefield that we'll see, so for our soldiers not to have the XSAPI will be a bad decision and I don't think really anybody in the Congress, Senate or the Army wants that to happen. So we're looking right now at about 8,500 sets a month between Army and Marine and Air Force requirements next year for the XSAPI. And we're also anticipating that at some point, they'll move the side plate program into that. And we're expecting maybe about 11,000 sets of the side plate, and that's in our forecast also, Pierre.

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