

Q1 Conference Call 2008

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April 18, 2008 10:00 a.m., CST

Operator: Good day and welcome to the AMCOL International first quarter 2008 earnings results conference call. Today's call is being recorded.

A replay of this call will be available starting at 12:30 p.m. central time today. You may access the replay by dialing 888-203-1112 and referencing the pass code 2460089.

Today's speakers will be Mr. Larry Washow, President and Chief Executive Officer; and Mr. Gary Castagna, Senior Vice President and Chief Financial Officer.

At this time, I'd like to turn the call over to Mr. Larry Washow. Please go ahead, sir.

Larry Washow: Thank you and good morning everybody. Welcome to the first quarter call. Trust you've all had a chance to look over the information on the press release that was sent out. Our format, I'll give you a few highlights of the business side. Gary will talk about financials. And then we'll open it up for questions.

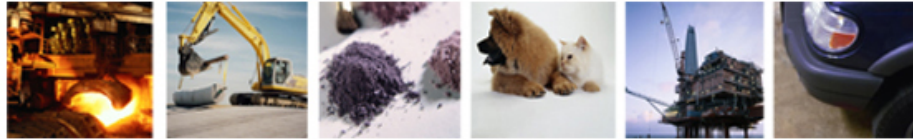
The good news – there's a little bit of good news, obviously – the revenue is up. And certainly, across the board, we think that bodes well for the future. Obviously, the challenge is in the margins and the profits. And we'll talk about that quite a bit.

As you know if you follow our business, the first and the fourth quarters are the most difficult to predict, particularly in the environmental sector. But in this case, in reality, the primary issues are around the mineral side. So I'll start with that.

Again, as has been the – or is the case, I should say for all the groups, sales are up, but the margins are down. If there's a bright spot in that, is that the margins from Q4 to Q1 are flat. Certainly, the cost side of the equation in terms of energy increased much faster in Q1 than we had anticipated. And that definitely had an impact.

We did have additional overheads. Fortunately, that related to acquisitions in Turkey and Mexico, neither of which, by the way, really contributed to the profitability. So that had an impact on the margins as well. And there was the freight component that we've talked about in the past. There was a greater element of freight in the sales line. And obviously, that provides no contribution.

So the fact that the quarter over quarter consecutively gross profit was flat I think is a good sign. And our expectation is that we're going to see some of the benefit coming from price changes as well as cost



exercises show up in our numbers in the quarters ahead.

Environmental – first quarter's always a tough one for them predicting wise. Good sales growth, though, in their case as well, particularly in Europe. Gross margins were down, combination of things, cost being an element there as well, but also the product mix, as we've talked in the past couple quarters. A greater percentage of the environmental business is now becoming some of the installation as well as the product sales. And those sales tend to have lower general profitability. So we do see a little impact on the gross margin.

The prospects going forward for environmental are really strong. The projects that were specified on around the world represent a bigger potential than we've ever had at this stage starting the year. So the prospects we think for environmental for 2008 are very good.

Oil field services – we learned one thing in this business over the last couple years in that there is a little element of seasonality. We started off 2008 very similar to 2007 with a soft couple of months. And then we begin to see the uptick. Old field repeated that pattern again in 2008. And the end result is OK, certainly sales growth and nice operating profit growth, but not indicative of what we think we're going to see certainly from growth for the balance of the year that presumes that the market stays strong as it is, but really a reasonable start. And again, if we look back in forecast, we probably will in the future forecast a bit of a softer quarter in Q1 for the oil field service group.

Transportation – not a big factor but actually a very nice job with that group in tough market, sales and operating profit both up very well. We did mention JV income was down just a little bit. And that's really a function primarily of the volume of bauxite shipping that goes out of India from our partner there. And they were down just a little bit in getting shipments out, no issues or concerns with the business there. It's very, very strong. So we think that's going to be fine for the balance of the year as well.

So the end result, costs certainly an element and lots of activity going on there, but also very aggressive on the pricing side as well.

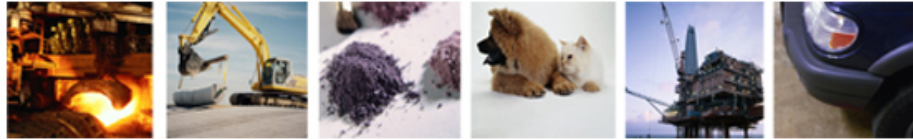
And with that, I'll let Gary talk about some of the other financials.

Gary Castagna: Thank you, Larry and good morning everyone. Just I will add some further remarks around the statement of operations, highlights, as well as the financial position and cash flow data we provided in the release. You'll see here that we have a breakdown of our sales with respect to the organic growth versus acquisitions and foreign exchange benefits.

You'll also notice in this release we also added some supplementary information at the end of the release. This is on a table that (party the vast four) over a period of time that we thought would be added information for your benefit for the call.

In the segments themselves, supplementing, of course, Larry's open remarks, in the mineral side, again, while we saw strong base business growth actually in a quarter-over-quarter comparison, a significant element, one-third, is added through freight pass-through revenue here, again, most of that here in domestic operations. However, we also do see that now in international operations as shipping cost, both shipping, rail long-haul shipping, et cetera, are added costs to our cost of goods. As you know, those are pass-through-oriented terms in many cases.

On top of that, though, we did actually overall higher volume, both in the United States as well as in our Asia Pacific market, in the Asia Pacific market the metal casting leading the way, U.S. across the major business lines.



We also mention here importantly that pricing in certain markets has been implemented in terms of not only passing through for the freight I'm mentioning here, but base pricing initiatives and across our major market line. However, as a result of essentially the shipping patterns and customer order patterns of the first quarter, the mix of the product and customer somewhat lowered the average selling prices for the quarter in terms of just the mix effect. That's somewhat of a temporary type of situation.

Larry mentioned acquisitions. And really our mineral segment is the only segment that has significant contribution from acquisition activity at this point – the acquisition in Turkey, which was completed in May of last year, and we mention here a Mexican business, just a little bit of background. That's actually a minority-owned venture. But for the accounting rules, it's classified as a variable interest enterprise and requires us to actually consolidate those operations onto our financial statement.

So we will be showing the sales, cost of goods, et cetera. That's really in a startup stage. But at this point, as Larry mentioned before, both of those operations have had negligible impact on operating income.

Environmental, again, supplementing the discussion from Larry's opening remarks, a strong quarter, again, driven by our overseas emerging market areas and Poland in particular. We also did see, though, in the U.S. large volumes relatively speaking from our lining tech group here. However, we'll talk a bit about the gross profit effect there in a short while.

Oil field services, again, continuing the strong market of the Gulf of Mexico in the water treatment area, a slow start there actually in the quarter. And the end of the quarter certainly more reflected where we saw shipping or should say service patterns for that business. And transportation, as Larry said also, may be counter the overall economy level and seeing some fairly positive traffic volumes.

Gross margin really is, again, the area of focus and the point at which we saw the large effect from last year with a 240 basis point decline in gross margin. Again, the mineral segment and importantly, as Larry said, we've seen here to our view a trough effect where the fourth quarter and first quarter gross margins are very comparable overall in the segment.

However, we do have a number of points of impact on that gross margin area. But clearly most pronounced is the U.S. with energy prices and mining costs such that are also related to energy. But just in general, our mining patterns and so forth have been resulting in overall higher input costs into our major mineral processing operations here in the U.S.

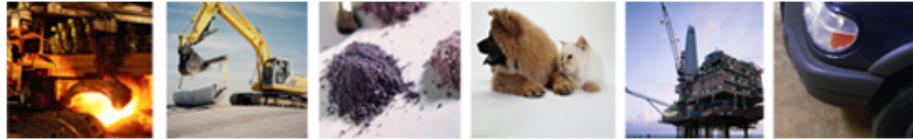
We also are seeing, due to the higher impact of shipping rates, delivered costs into the Asia Pacific region to our operations there of goods, inputs such as bentonite materials. And we are suffering a bit at this point of margin contraction in that region in advance of what we still believe are positive pricing patterns that can help lift the margins there.

And the environmental segment, we experienced a 260 basis point decline in gross margin. And again, that, as Larry mentioned, is somewhat driven by the strategic move in the services areas not only here in the U.S. but more so in the emerging market areas.

And in Europe, a lot of our business these days is being geared to installed-type pricing patterns. So we do believe that there's positive outcomes there in terms of the overall profitability. But the gross margin on service-oriented areas will be lower.

We also saw here in the U.S. – and it's not as pronounced as in our mineral segment – certainly, input costs and direct materials related to the environmental process operation impacting margin.

General, selling, and administrative expenses up 16.8 percent over the prior year quarter. Again, this was



spread out, different components from different businesses. A little over 20 percent of that total increase of \$4.8 million was attributable to acquired businesses. And in fact, most of that was in the mineral segment, again. That is the area where we have most of our acquisition activity.

About two-thirds of the growth of the mineral segment GS&A over the prior year period was due to higher costs associated with our joint venture in Mexico plus our operation in Turkey. And we also saw some base business GS&A growth, especially in product development and personnel costs in the Asia Pacific area.

The environmental segment, most of the GS&A really in terms of the growth is geared toward the emerging market areas to support the developments there. And on the corporate segment, this was somewhat more of a variable type of issue from the cost perspective. We – more of a coincidence – have experienced higher amount of benefit related cost that we absorb in the corporate segment of the company.

This is an area that's somewhat unpredictable. But while we've been pretty good overall in maintaining a lid on our health and welfare cost, this first quarter at least in the comparison for the prior year did experience some higher levels of those kind of costs.

Consequently, on the operating profit side and the margin, a decline of 240 basis points over the prior-year period due to the lower gross margin; interest cost increasing with our average debt levels. And the income tax, fairly comparable effective tax rate, a slightly higher rate than the overall rate from last year, some of this more sort of not a planning element of an issue. But we do have a research and development credit that we normally each year adds about – or I should say reduces our effective tax rate by one percentage point. And technically at this point, that legislation has lapsed. So we have not taken any benefit for the research and experimentation credit to this point.

Larry mentioned already timing related to the shipping patterns of our major investment in India.

Quickly, on the cash flow and financial position area, long-term debt increasing in the quarter, definitely a bit higher than what we normally would see in a first quarter, but somewhat in the typical element of debt level and commensurate with working capital where first quarter of the year, generally our softest quarter from an operating result standpoint, but our balance sheet tends to have more of a working capital need as we build up into the high season, if you will, for those businesses.

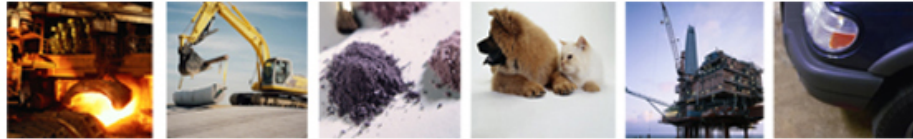
We also had a little bit of a higher cash balance. Some of that is more cash-planning initiatives that we have underfoot. But essentially the rise in the cash balance we see is sort of a temporary situation.

Next paragraph is really giving some more background on a sale-leaseback transaction we just finished in the first quarter. The working capital I already just mentioned in terms of the increase there.

Probably just skipping along to the investing activities, you see that our cap ex in the first quarter for plant and equipment and so forth was \$12.9 million, a bit of an increase over the prior year, but probably setting a pattern for the year that we're kind of predicting in terms of the overall spending level for the year that we've mentioned before, especially when it comes down to the oil field service area. That will be an area that we've been adding more emphasis to in terms of the cap ex buildup to support that business.

And finally, on share repurchases, we completed – or I should say we added 80,000 shares in the share repurchase in the first quarter, approximately \$2 million total. There was an oversight we didn't mention in here. But I believe there's approximately \$6 million of share repurchase authorization remaining from our board approval. That's it.

Larry Washow: Thank you, Gary. Steve, why don't we open up for questions.



Operator: Certainly. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your telephone. And please ensure your mute function is disengaged to allow your signal to reach our equipment. Once again, that is star one if you would like to ask a question.

Our first question comes from Jay Harris from Goldsmith & Harris.

Jay Harris: The sun is shining in New York. And the stock price is down \$5.35. Just an observation – you guys don't give guidance. Therefore, you don't – aren't required to telegraph where the numbers are going. But when you see street estimates north of a year ago and you're coming in significantly south of a year ago, why do you wait for the conference call to drop the bomb? Why don't you open the door earlier? The stock never should've gotten to 34 or 35 over the last week or so.

Anyway, there are two issues that it seems to me that you have to address. I don't know if you'll have enough time to address them in enough detail on this conference call. One is to what extent have you been able to get your arms around the issue of rapidly rising cost structure which has plagued your margins and obviously this quarter on a disastrous basis? And why should we believe that your margins will recover in the minerals division going forward when it is so far below the – I don't know – late '90s, early 2000 decade structure that had been in place?

And if we're in an environment in which crude oil is going to continue to go up and therefore your freight surcharges and your input costs are going to continue to go up, why should you be in a position to grow your company at an acceptable rate over the next few years? I mean, those are two separate issues. I'd like to see you address them as best as possible.

Larry Washow: OK. Jay, thank you. And there actually was an earthquake in the Midwest this morning. I trust our earnings had nothing to do with that, but ...

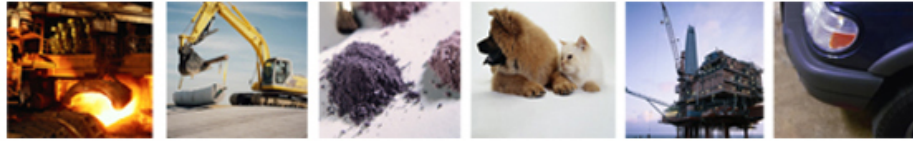
Jay Harris: Well, it might've been a reaction. Who knows?

Larry Washow: Minerals margins, clearly, the obvious concern is appropriate and understandable. And you know, I could tell you it's going to get better. And I believe it will. But obviously, the proof will be when it does.

What we're doing, though, to change some of the past history is certainly on the pricing side to the degree we have had – and we have had some pricing in some of the major markets, where the flexibility was on an annual basis or a semi-annual basis. We are – I think our longest term these days is a quarter for pricing. And sometimes, it's a month. And that's a relatively recent change over the last couple, or several months I should say. And that's going to have a positive impact in the quarters ahead. There's no doubt about it.

It's very clear that the energy costs we can't predict. We have no idea. We sort of assumed that towards the end of last year that things might've, if not peaked out, at least we would see marginal increases. And obviously, in Q1, the increases were dramatic, far greater than we had anticipated. And it's immediate impact on us when we're shipping internally with freight surcharges. We're buying diesel fuel to mine the material. We're buying gas to dry the clay. So the impact on the energy was far, far greater in Q1 than we had anticipated in terms of raising price.

Again, it's not pretty to say that the margins were flat. But the fact that they were in light of higher pricing, or higher costing I should say, I would hope gives people on the outside some comfort that, yes, there are – there is light coming at the end of the tunnel. But it is going to take some time for sure. And again, I do believe it'll get better. But until we can show it and see it and you see it, it's a lot of talk. But on the inside, quite frankly, there's a lot more confidence going forward than probably the outside might have at this



junction.

In terms of the growth question, the real strength I think will continue to be international. Our Asian growth is very nice quarter over quarter. We think that's going to easily continue. Eastern Europe in particular represents a great opportunity. We continue to see good growth in almost all the segments on the European side, but particularly the environmental. The mineral side, we really look at Asia to be the main driver.

No question the U.S. business is flat, and the metal casting is down, no question about that. So really the growth that we're seeing is coming from other businesses, other markets, and other opportunities. And we still think there's some – lots of ways that we'll continue to grow the business in the quarters ahead.

Jay Harris: You put some price increases into effect. Can you talk in terms about the dollars of price increase that you expect to be effective in the second quarter versus the first quarter or for the year? And as you look at things now, what are the dollar increases that you anticipate in your cost structure for the same periods of time?

Larry Washow: Yes, certainly, looking ahead for the balance of the year, and again, assuming that the cost inputs don't go completely crazy, you know, we have several million dollars of net benefit that will show up in the margins, assuming that the costs, again, stay reasonably in line with our expectations. So it's a fairly substantial number in terms of the mineral segment that we have the price increases built in.

Jay Harris: And is this – will we see significant progress on this front in the June quarter?

Larry Washow: I believe you'll see a good step forward in June, yes.

Jay Harris: All right. Last question is are you guys – have you guys left time in your schedule so that you can take one-on-one calls? And if so, what days are available?

Larry Washow: Yes, we'll deal with that, Jay. We'll certainly be available over today and early next week.

Jay Harris: All right. Thank you.

Larry Washow: Thank you.

Operator: Our next question will come from Rich Wesolowski with Sidoti & Company.

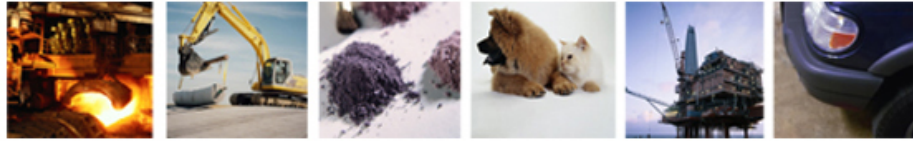
Rich Wesolowski: Thanks a lot. Good morning.

Larry Washow: Morning, Rich.

Gary Castagna: Morning, Rich

Rich Wesolowski: Larry, you just mentioned that – a phrase so long as the costs or the cost escalation sticks reasonably to your forecast. What is basically the forecast? I mean, are you assuming that this is an anomaly that you faced in the last six months or that this is basically the status quo that's going to prevail for the rest of the year and maybe even into '09?

Larry Washow: Yes, we don't think it's going to go down any, Rich. I think – and that's quite frankly where we were perhaps too optimistic assuming that there was a peak sometime in Q4. I'm out of the guessing business in terms of the costs for energy because I don't think we know. Even in the journal today, they



talked about the gas price increasing dramatically for natural gas in the future.

So we're anticipating that the cost components are not going down and in fact probably will continue to wrap up at some level. And again, I think with our pricing flexibility, having the capability now to respond very quickly to that on the surcharge component to some degree. But again, on the overall pricing on a much more regular basis, we're better positioned to deal with whatever happens.

Rich Wesolowski: Gary had mentioned the margin contraction in Asia, metal casting specifically, in the prepared remarks. I was under the impression that that was a lot higher-margin business than what you typically do in the U.S. Is that the case here in the early going? Or you have to maybe price the product a little bit more aggressively than you thought out of the gate?

Larry Washow: Yes, I mean, the margins over there are better than here generally, Rich. But the transport cost getting material there, the internal transport costs, even within places like China has escalated dramatically. And that's the area we do need to be more aggressive in moving the price up. And we are. But that had an impact on us in Q1 as well.

Rich Wesolowski: OK. And two more here – first, can you give an updated outlook on your expectations for the construction materials business, both in the U.S. and Europe?

Larry Washow: Overall for environment, certainly the lining tech business is extremely strong. The activity is very, very strong. On the construction side, there's a few pockets that are a little bit soft. One of the bigger areas for Europe in the last couple years has been Ireland. That seems to be a little bit softer this year. Good strong business levels in the U.S. and certainly in Asia continues to be strong.

So overall, I think the environmental sector, it looks very good overall, probably lining tech being stronger than we've seen in quite some time, construction products a bit – you know, there are pockets of softness. But there's also some really strong development in areas where we continue on projects that have been specified some time ago that are not coming into fruition. But I think overall, it's going to be a good year there.

Rich Wesolowski: OK. And finally, you had about six million bucks in acquisition revenue. I think just about all that was the Turkish minerals business. Why didn't that generate income?

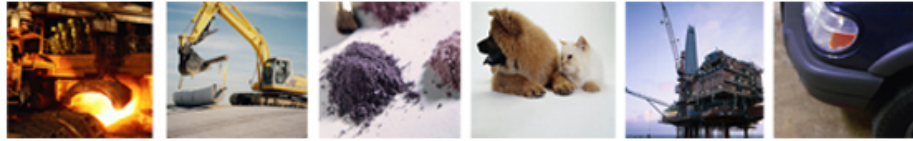
Larry Washow: Turkey and Mexico were the combination there, Rich. But the income side, we really found ourselves – we got that business towards the last summer last year, or the middle of summer I should say. And there was, quite frankly, just not enough material mined to get to the winter cost effectively. And that's the situation. Obviously, now that we understand the business better and we know what the demand is, and it's one of those situations where there's more demand than we have the ability to supply, which is the good side. The bad side is the material we did supply came at a very high cost.

So I think as we get into Q2, we'll start to get out of that. The mining season in Turkey is short. It's just starting now, and it wraps up in October. So we've got the mining contractors lined up and a much higher level of material that we expect to get out of the ground. So it will be a contributor in the quarters ahead. But it definitely hasn't been so far.

Rich Wesolowski: Great. Thank you, Larry.

Larry Washow: Thank you.

Operator: Once again, that is star one if you would like to queue up for a question. Our next question will



come from Al Kaschalk from Wedbush Morgan.

Al Kaschalk: Good morning, guys. Just wanted to follow up on the couple of businesses you acquired and the cost issue about getting prices through. Someone, I think what Jay said, it seems like we've had a number of quarters where we've been lagging. And that's taking some time to get through. Is there just a fundamental inherent part of your business that we're always going to have this lagging behind us?

And then secondly, as we looked at the top line benefiting from, you know, business conditions, opportunities, the margin on that dollar seems to be extremely low. So as you diversify geographically, it seems like the ability to control some of these operations have eluded you, and just wondered maybe if you could comment on that.

Larry Washow: Yes, I don't – I wouldn't agree with that necessarily, Al. I think when we get into completely new areas, like Turkey is a good example, there is a learning curve for sure. There was in China. There was in Thailand. There was in Korea. And there was in Australia probably as well. In all those cases, as we get the business turned around to the way we run our business, we've proven that it's a very successful model.

So to the degree that there's a lag time, it probably is only in the mineral sector quite frankly. I think if you look at the oil field service and environmental acquisitions, they tend to hit the ground running. They tend to be sort of old-time type products, whereas on the mineral side, we're into operations. We're into mining. We're into the nuts and bolts of the business and making sure that that is all in line, has taken a bit more time on some of these acquisitions than some of the others.

But I don't think there's a fundamental problem with the model. If you look back at the overall history in acquisitions, it's been very good.

Al Kaschalk: And in terms of a corporate target on consolidated gross margins, is that something now where we should be thinking getting something close to 26 this year is a reasonable achievement and then 30, 40 basis points off of that and into '09? Or are we still – with the mix of businesses, the acquisitions, the cost equation – remain challenged to reach that level?

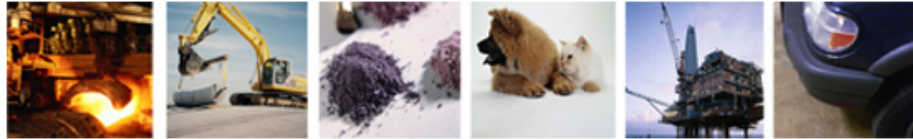
Larry Washow: I think to get back in that kind of range is certainly realistic, Al. And again, it's obviously not the kind of first quarter we wanted to deliver. But we've had lots of discussions and review of the business and where we're at and what's expected the rest of the year, what's already kind of baked in the cake. And we're going to see improvement. There's no question about it.

The level and the degree environmental gets really strong quarters in second, third quarter, great base of business. Oil fields until the hurricane season should be very solid. And then we'll have to see what happens there. But hopefully, that's good. ((inaudible)) sector, I think our ((inaudible)) has been cost and pricing. And you know, on some of the cost stuff, we just did not react quick enough to deal with the energy impact. We are now. And that's going to improve the margin for sure.

Al Kaschalk: And then how quickly, finally, from what the share price, where it's at, do we expect that the dollars available out there, you can go back to the board? Is there something you have to wait for, I guess the board – the meeting next month? Or can you do it pretty immediately?

Larry Washow: In terms of –

Al Kaschalk: Well, assuming you're at some point here – I mean, the inherent value which you continue to describe to us for the business is being discounted in my view today in the market. And I'm just trying to understand. You know, you're certainly at a pretty strong level in the debt. And you have \$6 million on the



repurchase program. Can you go back to the board immediately and get reauthorization on that?

Larry Washow: Sure. I mean, that'll be a topic at the board meeting coming up in May in terms of where to invest the money, yes.

Al Kaschalk: OK. Thank you.

Operator: Our next question will come from Todd Vencil from Davenport.

Todd Vencil: Thanks, guys. Morning.

Gary Castagna: Morning, Todd.

Todd Vencil: You know, just to follow up on one of the comments earlier, I mean, you're talking about the confidence level on minerals internally being pretty high, maybe higher than externally. And is it – I mean, does a lot of that come down to the fact that it sounds like you've sort of put this new pricing structure in place?

Larry Washow: Well, some of it is just more aggressively recognizing that we're in a position in the marketplace that, you know, the demand is such we have to recapture the costs and maintain the margins. And the costs are not going to get any better. So I think it's the realization of that that there's – and quite frankly, in going to the market, talking about pricing, in this sort of environment, nobody's surprised. I mean, you're not dealing in terms that, oh my God, nobody else is talking about higher prices. Obviously, everybody is.

So I think it's a combination of things – recognition that the market has changed, recognition that the cost profile has changed and is unlikely to improve substantially, at least in those components we don't control. And you know, from that, I think the activity in the marketplace has been very encouraging. And I, you know, it's a pretty solidly busy industry that we're in. So there's not enormous amounts of excess capacity anywhere. And I think everybody's looking at the same kind of cost input.

So we're finding, you know, reasonable understanding and acceptance on the customer side of where we need to be to maintain some margin.

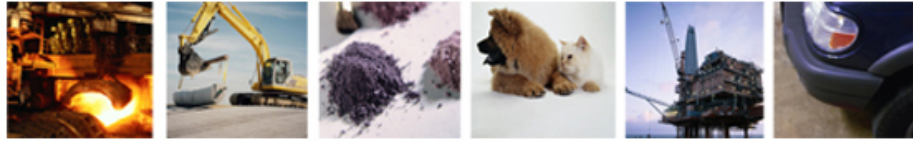
Todd Vencil: So just so I understand, what you've done is basically go from a situation where a the mineral side – and any color around, you know, product by product is appreciated here – on the mineral side, you had been pricing, you know, annual, maybe semiannually. And now you're pricing monthly?

Larry Washow: Well, it varies by market and by customer. But certainly there's nothing that's annual. There's nothing that's semiannual. The longest horizon we do is quarterly. And a lot of times, what we've done is gone back and put in surcharges to capture the energy cost monthly.

Todd Vencil: OK.

Larry Washow: That makes sure that we're not losing anything in terms of the overall. Obviously, that can have a little impact on the margin because there's more revenue dollars. And we recapture that on a quarterly basis.

Gary Castagna: And Todd, just to add onto that that there were also, though, product line areas that indeed we had not been really getting proactive on the pricing front. And now this is across multiple product categories. We, for instance, for a long time really have had in our metal castings business here pricing structures such that the transparent, if you will, fuel surcharges and so forth could be priced fairly rapidly



back into our customer base under the terms of those agreements.

However, some of the other input costs that have come in more from the manufacturing/mining side of things have not necessarily been areas that we've been as quick to in the past to push through in the marketplace. In today's world, that now has to happen.

Todd Vencil: Right.

Gary Castagna: And so there's – it's not that we've never been raising prices. We have been. And this quarter, as I mentioned, we did, some of that being a mix issue there that we've seen countereffect. But the issue, it's there. And it's also going to be in our environmental segment, an area we haven't talked about, again, as much. But again, pricing patterns in those construction-related material areas, in our segment anyway, are going to require also some pricing changes.

Todd Vencil: OK. And then turn to the environmental segment for a minute because really relative to my model on the operating side, that's where things fell a little bit short. And I guess I was surprised that we didn't really see more – see you guys getting more leverage on the SG&A there. Was I just sort of calibrated wrongly on that? Or you know, I guess I felt that we would see – start to see a bit more leverage than what we did see.

Larry Washow: Yes, Q1 is always a difficult one there, Todd. I mean, the GS&A pretty similar to the fourth quarter, a little higher in environmental, but not a great deal. And their kind of positioned more for Q2 and Q3 strength. So you just had to see a little bit of impact, more impact in Q1.

It is a difficult comparison, too, in fairness. There were some kind of one-off things in Q1 2007 that reduced the overhead numbers there a little bit, so made the comparison look a little worse than it really is.

But I think we're going to leverage on the overhead. Certainly, we have increased it in part to have more direct selling in some of our divisions which we pay commissions. And that is not always the best way to do it. A lot of times, we think that direct selling is going to provide a much better value. And it definitely provides higher contribution in terms of margin.

So some of that is built in there. And again, I think we'll see the benefit of that in the quarter.

Gary Castagna: Yes, and, Todd, just on that, the relative percentage to sales, the GS&A was almost dead on the prior-year quarter. But if you do notice that the SG&A in the environmental segment as a fraction to the sales line tends to be the highest in the first quarter because of the pattern.

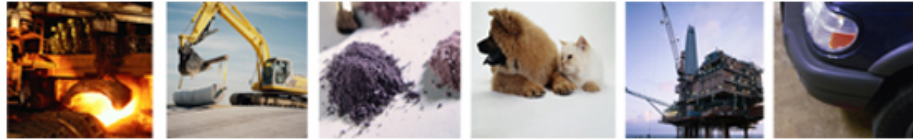
Todd Vencil: Sure.

Gary Castagna: And so there's not a pure correlation by any means on SG&A with sales, though, in general in that group. There'll be some, but not a lot. So as the seasonal pattern picks up in our view where the business is growing, you should be able to see that relative SG&A level decline.

Todd Vencil: OK. So if we look at the year, do you think SG&A as a percentage of sales can be better this year than last year? Or was last year, you know, pretty reasonably good?

Gary Castagna: I'd say it's probably going to end up being more comparable to the prior year.

Todd Vencil: OK. All right. And then as we think about sort of relatedly as we look down, you know, in the segment breakout at the corporate expense line, you know, that was running high. And you've talked about some of the reasons for that. I guess we were up about 26 percent year over year. But I mean, you know,



you've talked about some of the reasons. Can you kind of rank and give sort of, you know, a sense of the magnitude of what the impacts were there, whether it was from acquisitions or from healthcare or what have you?

Larry Washow: It's really more a couple of things. The benefits cost, as Gary mentioned, was the biggest single impact.

Todd Vencil: OK.

Larry Washow: No question about it. And that's, as you guys know, that's semi-unpredictable. And it tends to be, you know, just a function of people count. There were a lot bigger claims in Q1 this year than we've had previously. And a lot of those ended up in corporate.

Another element is certainly in the overall spending. When we look at spending, research and development is up about \$600,000 quarter over quarter. And not all of that goes into AMCOL. But there's certainly a reasonable chunk in there that's in AMCOL. Plus, business development's another couple hundred thousand.

So it's really – it's a function of kind of the benefits cost and additional research and business development cost that make up the majority of that change.

Todd Vencil: OK.

Gary Castagna: Yes, there won't be acquisition-related expenses that would ever get classified there, Todd.

Todd Vencil: OK.

Gary Castagna: Yes, this is really more on what we kind of absorbed. And even like in the pension-funding area, pension-related expense, a lot of that is absorbed into that segment.

Todd Vencil: So not even the overhead from the acquired companies?

Gary Castagna: No.

Larry Washow: No, no, no

Gary Castagna: Not...

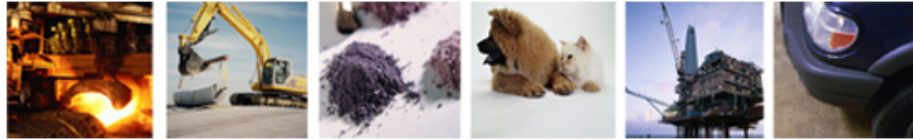
Todd Vencil: OK. That all ends up in the segments. OK

Larry Washow: Right. That's right.

Gary Castagna: Right.

Todd Vencil: And then I guess really final question, in the oil field business, you just sort of mentioned that, you know, you think it starts out slow. Are you seeing levels of activity now and late in the quarter that make you feel confident about that that, you know, maybe it starts out soft but it's going to pick up and ramp through the rest of the year.

Larry Washow: Yes, certainly, it's doing exactly what it did last year. And the first couple months, quite



frankly, are slow. And then all of a sudden in March, we have everybody we have available out there. And that's what happened last year. That's what's happening this year and continuing on into Q2.

Todd Vencil: OK. Thanks a lot.

Operator: Our next question will come from Ralph Marash from First Manhattan Company.

Ralph Marash: Morning.

Larry Washow: Good morning, Ralph.

Ralph Marash: Could you just comment on the strength in the pet business?

Larry Washow: Yes, actually, I mean, the pet business is strong. The transition from sort of traditional litters to bentonite-based litters, which it plateaued a couple years ago, seems to be building again. So in terms of the market percentage, there's greater demand for our type of product in the marketplace. And we're supplying a lot.

The packaging side of that business, which we have a small component of, continues to improve, probably had a much better quarter starter this year than we did last year certainly. So that business is very strong, Ralph.

Ralph Marash: So it's more than just your customer order patterns.

Larry Washow: It is. It is. I mean, the whole demand cycle for the bentonite-based litters is up quite a bit.

Ralph Marash: OK. And I wanted to go back to gross margin for a minute. And in January, you had talked about the neighborhood of 27 percent for the year. And I'm wondering if you could just clarify that in view of the margins for the first quarter. Do you still expect to be in the 26, 27 percent neighborhood?

Gary Castagna: Yes, I think – wanted to supplement what Larry mentioned earlier that you also have to remember that the pattern of the year – this is definitely a low point in the year, 24 percent, Ralph. But as the environmental and oil field segments continue a higher growth trajectory, there's going to be some natural shift there.

The question I think in terms of our respective forecasting as well as I'm sure others outside is just the restoration of the margins, if you will, on the mineral side that impact it. And that impact could, you know, be substantial on a point or two basis, frankly, between now and the end of the year in terms of that overall gross margin level.

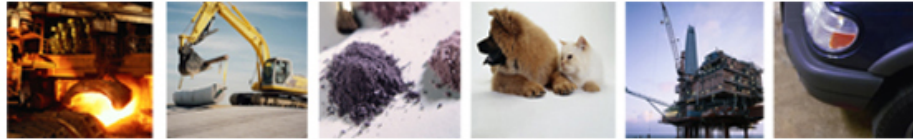
Ralph Marash: OK. Thanks very much.

Larry Washow: Thank you.

Operator: And we do have a follow-up question from Jay Harris with Goldsmith & Harris.

Jay Harris: Change of subject – progress report on the chrome sands venture in South Africa?

Larry Washow: We announced the pending acquisition there a few weeks ago. We had to announce it because it is a public company in Australia that owns the asset in South Africa. And there's really nothing to update beyond that. We have yet to determine a closing date and are obviously still in the due diligence



process on those issues that were mentioned in the press release, so.

Jay Harris: Where do you stand in terms of having the mining site fully permitted?

Larry Washow: The previous owner had pretty much gone through the entire process there. It's not a final permit yet. But much of the ground work has already been done.

Jay Harris: And I understand there's a capital investment that's required before the – I'll call it the ore can be used in foundries. How long does that take?

Larry Washow: About a six-month process to build the plant.

Jay Harris: And do you ...

Gary Castagna: However, Jay, on that, though, we have already made provisional moves there such that we can process ore. And we're actually getting some of that – a toll process, if you will, today, not from the site that we are obviously looking to control. But there are other sites that you can also process the ore at.

Jay Harris: Well, are you accessing sand at this point in time and expanding your sales operations during the June quarter?

Larry Washow: We won't see a lot of expansion in June. But in the second half of the year, we will. We're certainly supplying our U.S.-based business, which is where we've been selling this material for the last 30-plus years. As we get more capacity coming through the processing facility there, we will definitely expand our presence there.

Gary Castagna: Yes, I'd say it's a limited impact for fiscal '08 regardless of having the transaction completed because in reality we won't have enough access to production capacity to really enable us to move to a larger level that we certainly plan to do, especially in the global marketplace outside of North America.

Jay Harris: Has there been any change in your mind in terms of the closing date on the deal?

Larry Washow: Hard to say, Jay. There's certainly some issues that we're still dealing with. The hope is to wrap it up midyear. But it's not a firm date yet.

Jay Harris: OK. Thank you very much.

Larry Washow: ... you.

Operator: And at this point, we have no further questions.

Larry Washow: All right. Thank you, everybody. We look forward to a call in Q2 that I'm sure will be a better one. Thank you.

Operator: And this concludes the teleconference. We thank you for your participation. Have a great day.

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