



Q1 2009 CONFERENCE CALL

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Operator: Good day, and welcome to the AMCOL International first quarter 2009 earnings 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 passcode 9892174.

Speakers today will be Mr. Larry Washow, President and Chief Executive Officer, and Mr. Don Pearson, Chief Financial Officer.

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

Larry Washow: Thank you, and welcome, everybody, to Q1 2009, and I guess by now, you've had a chance to look over the press release and the information. I would describe it as sort of a reasonable start to what undoubtedly will be a very interesting year.

As you'll note, the earnings for the quarter, \$0.14 a share. Sales were down 14% as well and the revenue decline, certainly we talked about currency being a big factor. Freight revenue also comes into play there and we'll talk about that a bit more, but obviously, the volume is down, and certainly, that's the biggest story we have in the mineral sector -- volume decline in minerals, the biggest sector for AMCOL in total, and if we look at metalcasting, which is the biggest segment of minerals, not a big surprise that the volume is down there.

You've all read and keep track of, I'm sure, the activity in the automotive sector, which has been greatly in the news in last few weeks. The heavy equipment guys are as well and all those businesses are down -- so big impact on our volume.

The other factor that had a big impact on volume is oil drilling and in this case, if you look at our minerals oil drilling business, the rig count is a pretty good proxy for what's going on. And from the earnings calls in the last few days from oil-related companies, you'll note that the rig counts are down more than half of what they were a year ago. Lots of forecasting of continued rigs decline really depends on what happens with the oil pricing, but the rig count is definitely down and dropping. So that is an ongoing concern.

The good news in the mineral sector though is the margins, and while the margins were down a little bit from Q4,



hanging around that 20% mark on much lower volume, certainly, I think is a pretty good performance to start the year -- part of that related to pricing that we've talked about over the last several quarters, but an element of that is cost as well.

And we have been pretty aggressively trying to make sure that our operational capability, size, staffing and cost sort of match up with the demand requirements. And to that end, we have closed three of our smaller metalcasting related blending plants. And we announced last week that we were idling one of our larger western operations.

Our three major western operations are more efficient and certainly capable of absorbing the volume that was going through the smaller operations. So we expect that all of that will help us be sized right for the business as we see it going forward.

The Environmental sector, Q1 is always a bit of a challenge, and in a normal year, I think we'd probably be talking more about weather, because it was a very difficult January and February, particularly in Europe and parts of the U.S. So many projects that were planned were slow to get going.

But one element of the Environmental business is definitely down, and that is commercial construction. We see that decline globally and really don't expect that to turn around anytime soon, and when we talk about the segments, you'll note in there that that's one of the biggest declines year-over-year across the company.

The Lining Tech business declined as well, but that's a little bit less volatile, and we think over the course of the year, given the projects that are lined up, and the expected activity, particularly in Europe, but also the landfill business, which is relatively stable -- not completely, but certainly a lot of the cells that are planned will be built. So we think over the course of the year, Lining Tech is actually going to be not great, but okay, but commercial construction, again, we don't look for that to come back anytime soon.

Oilfield Services would be a surprise, I guess, in terms of the performance this quarter. A couple of elements go into that. We acquired the Coil Tubing business mid-year 2008, so that was not included in Q1 2008. So that's a portion of the increase in revenue and profitability, but the real story there is sort of the business mix and most of our business in Oilfield Services is offshore. Depending on the nature of the projects and the size of the businesses there, that's good profitable business.

But I think the gross margins in Q1 were unusually high for what I would expect over the course of the year. I think a more realistic proxy is probably in the low 30s, as opposed to the mid 30s, as we saw in Q1.

There are some positive things in Oilfield though. The acquisitions that we've done over the last several years were with the idea that we would create a bundle of projects and products and services, and we're now doing a much more aggressive job at cross-selling those products and going into companies and providing a number of services on the rig instead of just one or two that we might have historically.

Additionally, the international side of that business, we think has some real opportunity. So Asia, in particular, we've got a good team of people hard-working there and I think I mentioned last time, we have finally after a couple of years, a good project going in Brazil and we expect that to be the first of several additional projects.

But obviously, overall for AMCOL, clearly, we need to manage the costs in face of the slowdown in business, which is very real, and most importantly, is the balance sheet. It's obviously a critical element and certainly, the subject of our internal discussions on a daily basis.

We have made some good progress, I think, in 2009, and I'll let Don talk about that, along with the other financial issues.

Don Pearson: Thank you, Larry. Before I get into some of the financial highlights, I just want to point out that AMCOL has adopted FASB-160 non-controlling interest in consolidated financial statements. There's no material impact on the Company, but it essentially takes what was previously referred to as minority interest and puts that in different locations on both the balance sheet and income statement. So all public companies are doing this. It's



nothing new just for AMCOL.

Moving to the statement of operations -- Larry mentioned the decline of revenues of about 14%. I do want to highlight that 54% of that was due to foreign currency and 25% was from freight and fuel surcharges decline. So, almost 75% of that revenue reduction related to currency and the freight pass-through.

Looking at corporate G&A -- while we saw an increase of \$900,000 quarter-over-quarter, about half of that represented one-time professional fees that we incurred as we had to do the restatements for our joint venture with Ashapura for Q2 and Q3 in 2008. If you looked sequentially comparing corporate overhead from Q4 of '08, we're about flat. So if you excluded those one-time costs, we'd be down.

I want to highlight that the other net item on the income statement represents foreign currency transactions, so you'll see an increase there of about \$1 million. Again, we had quite a bit of currency volatility in the quarter, although we did see some softening of that in the March month.

Interest expense is obviously up a bit due to the higher debt levels, and the other item I want to point out is the income from joint ventures is down from the prior year quarter. That's all due to Ashapura, which was 1.2 million in Q1 of '08 as a result of the stopping of the bauxite shipments last May.

If we move to the balance sheet, I want to point out a couple of things here. Certainly, on the working capital, we're pleased with the progress that we had in the reduction in receivables and inventory. And that's obviously a combination of both volumes being down, but also new efforts by management really focusing on that. So the challenge for the rest of the year is to make sure that we improve the performance of that.

We'll typically see increased working capital in the second and third quarter as business activity increases, so our objective is to make sure that on a relative basis, our performance on working capital improves. In other words, if there is an increase in those quarters, it would not go up at the same rate as prior years, and then we'd expect to see a net reduction in working capital by the end of the year.

Also, I want to point out that we did the purchase of the chrome mine in the first quarter, and the way we account for that is we consolidate that. So when looking at the balance sheet, the big changes you'll see there is the increase in mineral reserves. That's a result of South Africa.

Also, you'll see some -- about a 3 or 4 million increase in other liabilities that's picking up some obligations on South Africa, and then with the new accounting rule of FASB-160, the minority interests are now called non-controlling interests and that's down in the equity section. So the increase there is reflecting our partners' minority share in South Africa.

I want to point out on debt, we saw a slight decrease there of about 4 million. Again, we hope to keep debt flat, ideally down, during the year. Q1, of course, we had to absorb the purchase of South Africa, so we're pleased that we were able to have debt come down slightly.

Also, looking at the availability of debt, our unused facility has about \$61 million available on it. We also have an additional line of credit that has \$12 million at the end of the quarter. So we have about \$73 million of available borrowing at the end of the quarter.

I'll also note that our cash balance of 32 million is a bit higher than normal. We typically target about a \$25 million balance, so that higher balance is really due to funding the dividend payment in early April.

Now, let's take a look at the statement of cash flows, and I really want to focus on the investing section here, just to make sure that's clear with everybody.

You'll see some activity on the corporate building that's an in and an out, so that's a wash. We'll see several million



of that in Q2 and then that should be the end of that.

Down below, you'll see a receipt from Chrome Corp. of \$6 million. If you recall, this was a loan that we made to Chrome Corp., the company that we bought the South African mine from. When we closed this deal, the way that the cash flows worked was we collected that receivable, so we had an injection of 6 million of cash and then the cash outflow to purchase our 53% of Chrome Corp. was 15 million. That 15 million is included in the capital expenditures line item there of the 23.6 million. So the net cash cost of South Africa in the quarter was appropriately \$9 million.

And I think with that, Larry, I'll turn it back to you.

Larry Washow: Okay, Don. And Rhonda, why don't we open up the call for questions?

Operator: Thank you, sir. (OPERATOR INSTRUCTIONS). We'll take our first question from Rich Wesolowski with Sidoti & Company.

Rich Wesolowski: Good morning, how's it going?

Larry Washow: Good morning, Rich, good.

Rich Wesolowski: Looking at the oilfield in March here versus December, you did a much higher margin on about 1 million less in sales. Can you explain what happened there?

Larry Washow: Yes, the product mix has a huge swing, which is why when you look at quarter-over-quarter sometimes, if we've got more of the higher value offshore business than onshore, it really does play out very well, but it is why I mentioned as well that I think the 36% is really probably unusually high. Just given the nature of the market as it is today, 28 is probably a bit lower than I would expect.

So if we look at somewhere 30-plus or minus is probably a more realistic target, given this sort of environment, but if there are some big projects offshore that have really good margins, we might see drifting up towards the mid 30% again, but it's really just a product mix thing, Rich.

Rich Wesolowski: Well, I imagine that the natural gas drilling services are down, as you mentioned, and the offshore seems a lot steadier. So why would the product mix change so much to bring it down to 30 in coming quarters?

Larry Washow: It really just depends on that mix again. We had a probably unusually strong mix, we think, in Q1 of the offshore activities. Again, we're still going to have offshore activities, but there are some of the services we provide that are much higher value than others.

Filtration was extremely strong in Q1. We've already seeing in Q2, not bad at all, hanging in there, but probably not at the same levels. So, I think we are going to see it drift down, again not probably to the 28%, but certainly off the 36.

Rich Wesolowski: If I look at the 17% segment organic growth rate, that means you would have had to have a much larger increase than that in the offshore to offset what I imagine was a decline in onshore.

Larry Washow: Correct.

Rich Wesolowski: Okay. Is the dividend safe?

Larry Washow: Obviously, that's a Board decision, as you know, Rich, but the Company's paid a dividend for, I think, 72 or 73 years. I think we'll continue to pay a dividend. Obviously, the size will be a discussion, as it is every quarter, with the Board meeting coming up in May.

Rich Wesolowski: So if there's a change, you will still pay a dividend; it would just be a different size?

Larry Washow: I think that's safe to say. I don't see the dividend going to zero at all, no.

Rich Wesolowski: Okay. And then finally, if you back out the currency effects, as well as the one-time corporate item, I have your SG&A up about \$0.5 million and your organic sales declined. Are you keeping the resources high in the expectation of better business in quarters ahead, or is there a potential for lower overhead cost as we move through the year?

Larry Washow: I think we'll see the overhead costs trend down. We're certainly not keeping them high. The building does -- the new building and all those, bring a bit higher cost level that wasn't here last year. We really kept R&D at about the same kind of level, so that's hanging in there.



We've also actually done a bit of work to try to create some groups that can bring some real value and savings. For example, we didn't really have a full group to support our tax efforts last year; we do now, but the net impact of all that should actually be a lower cost of overhead as we get everybody in place because we reduced the outside spending. So some of the things we're doing should actually show up this year as a reduction in overhead, and I think we'll see that continue to trend down throughout the year.

Rich Wesolowski: Thanks a lot.

Larry Washow: Thank you.

Operator: And we'll take our next question from Al Kaschalk with Wedbush Morgan.

Al Kaschalk: Good morning, Larry.

Larry Washow: Good morning, Al.

Al Kaschalk: And Don.

Don Pearson: Hey, Al.

Al Kaschalk: Just a follow-up on the oil field services question. If you look at -- if you take that down to the operating line, how should we think about the trend there, because as you know, last year was quite varied as well.

Larry Washow: It is a tough call, Al. I mean, in the fourth quarter, even with the lower gross margins, I think the operating profit was still 13%. It's 15% now. There's a higher overhead burden this year in part because we've got the coil tubing business included in there. So again, I think if you're looking orders of magnitude, the 15%-plus or minus is probably not going to be way far off where we expect it to be.

Al Kaschalk: All right. And then have the components to drive this business changed, given the mix of assets that you've added over the last one to two years? In other words, what should we think about here because this clearly moves the needle on a given quarter, given the strength.

Larry Washow: Yes, it certainly does and it's -- given the nature of this business, it's hard to give you kind of a clear forecast because these are projects that -- I was talking with our guys yesterday, in fact, and they had some projects that the big oil companies said these are going to happen, but we're going to slow down and it might not be in April, it might be in May, it might be in June.

So even though we've got some visibility as to things that are coming, it's very difficult to say, second quarter is going to be good, bad, or indifferent. The strength we do have with the acquisitions over the last couple of years is we're now selling a much more complete portfolio of projects -- or products rather, and services than we ever had before. So what we have seen is some of this bundling, as we'd call it.

There's a benefit to that in that we've got the sales people dealing now with a whole range of products and not just going in and selling filtration. They can sell nitrogen, they can sell coil tubing, and it's really beginning to develop the skills with the people in the marketplace, so they can bring more to every project than we have in the past. That, we think, bodes well, so I think the work over the last couple of years will definitely pay off.

It is, again, a business that's going to be heavily driven by oil and gas pricing, and I've read all sorts of projections there, so I don't even hazard a guess anymore as to where that might end up, but I think you're really going to need to see pretty consistent oil prices, probably above \$60 a barrel, before you see kind of a rebound in activity.

Al Kaschalk: So is it fair to say if you take out the ups and downs on some of the project work, meaning timeframe once they'll start or complete, can you see this kind of doing a high single-digit quarter year-over-year type of growth, or is it, like you said, a function of where we're sitting on oil and gas prices to drive this top-line?

Larry Washow: Yes, I think the oil and gas prices are going to have a big influence. About half of the increase, if you look quarter-over-quarter, is really related to coil tubing, and that's -- we actually thought it would be a much bigger portion of it because the business declined quite a bit in coil tubing, and that's all related to price of oil and gas. So I don't know that we're going to really -- a good strong first quarter which is good, but to expect that kind of continued growth over the course of the year after the change in oil and gas pricing, I think is probably not realistic.

Al Kaschalk: And if I may switch the segments to the Environmental side and the supplemental information you provided, it highlights the -- maybe the negative trend, the downward trends and the composition of that segment, but in particular, building materials down nearly 35, 40%.

Larry Washow: Right.



Al Kaschalk: How is the visibility there? I appreciate your comments in the press release and prepared remarks that it's going to be an interesting year, but can you help us try to round the edges there a little bit and square up with a number?

Larry Washow: Yes, it's building materials. I mean, it's really -- the building we see going on is primarily government-driven. Some of the universities and a little bit of the hospital sector are kind of still building, but even in places like Dubia, which was -- there's not enough builders to keep up with them, slowed down dramatically. So I think that commercial construction, the building materials activity, the sort of decline we saw in Q1 is probably not going to change a great deal. I think we'll see that kind of continue throughout the year.

Lining Tech, on the other hand, the first year -- the first quarter, rather, was difficult because of the weather. Certainly, there is a bit of a slowdown there as well. There's no question about it, but I think the first quarter slowdown there is probably exaggerated from what we'll see over the rest of the year. So I think Lining Tech will actually end up with a pretty solid year when it's all said and done, and the declines won't be of the magnitude we saw in Q1.

Al Kaschalk: And then not to leave Don out, but can you maybe comment on the change in -- or the benefit in working capital you expect or are targeting for 2009, given the strength you had in Q1?

Don Pearson: Yes, I think the way we kind of frame that is, looking at 2008, we probably invested 60 or 65 million in working capital. So, internally, by the end of '09, we'd like to see an improvement of a minimum of half of that, but certainly, with the start of the year, we're encouraged by that. We do know again that we'll probably invest a bit in Q2 and Q3, but we want to -- like I said before -- improve the performance, but by the end of the year, we absolutely expect to see working capital benefit of at least \$30 million.

Al Kaschalk: Thank you.

Larry Washow: Thank you, Al.

Operator: We'll take our next question from Jay Harris with Goldsmith & Harris.

Jay Harris: Don, I'd like to start with you, if I could. I'm confused on the change of the AMCOL shareholders equity, which is down some \$8.5 million. The dividend exceeds the net earnings by about 1.5 million. Where did the rest of the decline come from?

Don Pearson: This is probably going to be in that line item, other comprehensive income, so you note that that changes by 8 million or 9 million.

Jay Harris: I'm sorry. You're on the P&L statement now?

Don Pearson: I'm on the balance sheet.

Jay Harris: You're on the balance sheet -- equity, where do I find that?

Don Pearson: Your question was the decline in equity.

Jay Harris: No, the other comprehensive income. That's on the P&L statement?

Don Pearson: Well, your question, sorry, Jay, was regarding a decline in equity.

Jay Harris: No, but you mentioned other comprehensive income [change].

Don Pearson: Yes, right.

Jay Harris: Where do I find that?

Don Pearson: Okay. So if you go to the equity section, within equity, there is accumulated other comprehensive income.

Jay Harris: Oh, and what's the -- (inaudible)?

Don Pearson: Yes, included in there is going to be a lot of accounting type activity, but it's principally going to be foreign exchange and pension related.

Jay Harris: And what will happen going forward in the year in that account?

Don Pearson: That's going to be a function of what happens with the translations on foreign exchange, and pension accounting, and I think to some extent, the way we account for Ashapura also falls down there.

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Jay Harris: Do the changes in the other comprehensive income flow through the P&L statement?

Don Pearson: No.

Jay Harris: So this is just a change in the valuation of assets?

Don Pearson: It's a combination of a variety of accounting principles.

Jay Harris: I hear you and I've been confused for years on those. Larry, could you comment a little on where and how you'd like to drive the oilfield service business over the next few years?

Larry Washow: I think the big opportunity for us there, and we started the process already, is bringing the whole portfolio of services on a more consistent basis to our customer base and expanding the customer base and we think there's a lot of opportunities. I forgot the number offhand, but 80-plus-percent of the business is really in the U.S. in this sector and a lot of the oil activity is outside the U.S., particularly in Asia, certainly in South America. And we're really very early days in getting there with our technology, with our service and with our skilled people, so I think the growth opportunities there are very real.

But we're pretty well established in the Gulf of Mexico, and we're certainly going to be aggressive and try to grow the business there, but I think in the years ahead, it's really going to be outside the U.S. that we see some substantial opportunities, but, again, even that, it's really going to be driven by that oil and gas price.

Jay Harris: How long do you think it's going to take to achieve what kind of goal in terms of percentage of revenues from outside North America?

Larry Washow: It's going to take a couple of years. I mean, we're – two and a half years ago in South America, but these tend to take some time and you'll finally get a project and you have to prove yourself on the project, and then you get more, so it takes some time. So I think over the next couple of years, we should see some of the benefit of the work we've been doing. So I would look down the road three years and hope that instead of 10% or 15%, that 30% of this business would be outside the U.S., at least 30% of our bigger business.

Jay Harris: Will you be taking advantage of the depressed activity levels to acquire other complementary services?

Larry Washow: It's a possibility, Jay, but I think we believe anyway, we've got a nice package right now, and so it's really more taking what we've got, translating that into other parts of the world as opposed to acquiring more services. We think we've got a good portfolio right now.

Jay Harris: All right. Can we switch over to metalcasting for a moment?

Larry Washow: Sure.

Jay Harris: It's heavily weighted to the U.S. GM has indicated it's going to take an extended plant shutdown this summer. Do you have any notions as to how your first quarter activity levels might have changed if there had been no inventory reductions in the channels?

Larry Washow: I don't have a good feel, to be honest with you. I think in the first quarter, like the second quarter, there were really lots of shutdowns. I mean, the Christmas shutdown extended well into January, so we saw a lot of slowing down already. It's really hard to say what all the activity talked about in Q2 means. Keep in mind that we do have a broad customer base, including all the foreign nationals that produce cars here as well. So, GM is an element, but the other guys are very important as well, so this is one area that's really hard to predict. Obviously, the build rate is well off of the highs. Nobody expects it to just get back there anytime soon, but if it hangs in the 9 or 10 million unit range, the decline you saw in the first quarter is probably order of magnitude what we would expect for the year.

Jay Harris: Well, what I was -- I guess I was approaching it a little differently. If I took your first quarter activity level, I was trying to get a sense of how much that might increase on a quarterly basis, once the inventory correction was behind us and without any -- necessarily any change in 9 or 10 million final demand level.

Larry Washow: It's hard to know, because there's a big element of it that's outside of automotive as well, or 30-plus-percent of it outside of automotive. And how that business develops and whether the heavy equipment guys comes back at all has a big impact because certainly, that's slowed down pretty dramatically as well. So I guess I'm not giving you a very good answer because we just don't have a really good visible picture of how the second and third quarter are going to shape up.

Jay Harris: When do you think you'll -- I guess post-Labor Day, you'll have a better picture, right?

Larry Washow: We'll know what the second quarter did by then for sure.

Jay Harris: I would hope so. All right, thank you.



Larry Washow: Thank you.

Operator: And we'll take our next question from Nat Kellogg with Next Generation.

Nat Kellogg: Guys, how you doing?

Larry Washow: Good.

Don Pearson: Good morning.

Nat Kellogg: Good morning. Just -- I wonder if you guys could -- now that the acquisition is closed, maybe talk a little bit about your expectations for the Chrome Corp. acquisition. I guess really -- I know longer term what you guys are planning to do, but how much is that going to move the needle this year, if at all? And I know that -- I think you guys have [tried] to really get that business up and going there is going to bring you some cap ex associated with that mining. So, maybe when that might happen -- is it this year or next year and maybe just a little more detail there.

Larry Washow: Can do. We really don't expect to do any needle moving at all this year. We do have a small plant there that is producing and we will be selling some material out of there, but relative to our big plant expectations and market opportunities, that's really going to be a 2010 event.

Now, what we do hope is in the second half of the year, to be able to start on the new plant and we're in the process now of really trying to fine -- tune the whole investment opportunity there to make sure we're looking at the right sort of capacity and try to minimize the expenditure we have to make to get that underway. But that plant, in a best-case scenario, probably wouldn't be running until Q1 of 2010.

So in the meantime, we'll be seeding the market with some materials from our other plant and trying to be in a position when we have the new plant, that we're really ready to turn it on and start shipping finished product to our customers, but 2009, no real benefit, I don't think. 2010, certainly in the second, third and the fourth quarters, we expect to see some real positive things out of it.

Nat Kellogg: Okay, that's great. And then maybe I guess if you guys -- I mean, I realize this is difficult to say exactly, but I mean, if I looked back at the sort of typical seasonality you guys had, obviously, Q2 and Q3 are up from the current levels, but we think we've seen in a lot of the other companies, given what's going on in the world, that's sort of thrown a lot of curve balls in sort of typical seasonal movement.

So I'm just curious if you guys had any comments or any further insight to give us as far as businesses that you might think might not respond. I mean, obviously, the GM shutdown, how that might affect metalcasting, but beyond that, how seasonality might be normal or different this year, given sort of what's going on in the broader economy?

Larry Washow: Yes, our big cyclical business is the Environmental, and it's really weather dependent. So the second and third quarters tend to be far busier than the first and the fourth. And we expect that trend will continue. There's a lot of projects out there. We don't -- this will be the first year we don't see growth in Environmental I suspect, but we certainly think there will be a lot of good activity in the second and third quarters, much greater than the first and the fourth.

So, will it be the same magnitude increase as it was last year? Probably not, but we'll definitely see a pickup in the business over the next couple of quarters.

Nat Kellogg: Okay. And then just a last one, and I think you mentioned this is at the very beginning, but it's just been moving quickly, so I wonder if you could either go back over it or maybe give a little clarity about it. How much of sort of the revenue decline was tied to sort of lower fuel and freight sort of pass-through costs?

Don Pearson: Yes, about 25% of the revenue was related to freight or fuel pass-through.

Nat Kellogg: Okay. So the 25% of the revenue decline was really freight, right?

Don Pearson: Yes, so 6, 7 million.

Nat Kellogg: Okay. All right, great. Thanks very much. Appreciate it. Nice quarter, guys, and congrats.

Larry Washow: Thank you.

Operator: And we'll take our next question from Robert Smith with Center for Performance Investing.

Robert Smith: Good morning.

Larry Washow: Good morning.



Don Pearson: Good morning.

Robert Smith: Could you bring us -- give us an update as to the R&D effort, what's been happening in the recent months?

Larry Washow: Sure, Robert. We've got a number of projects going and as you can see --

Robert Smith: Yes, I was thinking more in the Nano area and also mycotoxins and things like that.

Larry Washow: Yes, the mycotoxin thing is probably one of the more exciting areas. It's not a new business for bentonite, but what we are doing is working with some large global companies who are in the animal care business and really trying to broaden our base. Historically, bentonite has been used as a cattle feed supplement, but it clearly has benefits for a number of other animals -- swine, chickens and what-have-you.

So we've got a lot of projects going that we think are going to enable us to partner with these global guys and really build a stronger business and a higher value technical business at the same time. That's a very good project ongoing, and we think we'll see some benefit out of that in the quarters ahead.

The Nano business is -- if you've followed us at all, we've been working on for 10 or 12 years, and we've got some really interesting technology. We haven't found a big home for it. There are some applications in automotive for light-weighting that are going on. Some of the barrier uses are very good. There's potential that this could be part of the fuel tank barrier program to try to minimize emissions from that, but it's still a very, very small business, and if anything, I think what we've learned from the technology is the ability to take that into other markets.

So we're really looking at a broader base for that technology and just -- instead of just saying, okay, it's got to be a nano-material going somewhere, maybe that surface treatment technology we've developed in creating that Nano product has application in a broader range of areas -- one of those being some of the -- the Mycotoxin could be a potential. Some of the work we're doing in sort of exotic things like cholesterol reduction have been driven from our work on the nano-clay side, but they're quite some time away from really being revenue producers.

Robert Smith: Anything further on the work you've been doing in sort of -- I'd call it healthcare or pharmaceutical area?

Larry Washow: Yes, the pharmaceutical, that's -- the cholesterol is probably the active project we have now, and we've had interesting results in a number of studies. We're still a ways away from determining kind of what the product is and where it would go and where it would fit. But we do show some efficacy that is interesting.

And we think in the quarters ahead, we might have something to talk about there, but right now, it really is -- it's an ongoing R&D project. It's not really even begun the transfer to determine commercial potential or how we might go for that.

Robert Smith: The work you did in the HIV area, did that go away or --

Larry Washow: It's still there; it's still there. We're still looking for applications. We've got some areas in wipes, for example, that we think has some interest in that, but we've really not found -- and in that case, clearly, we need a partner to take that into any human sort of activity and we've not really found a partner yet who says, yes, that's new technology, I'll work with you to develop it -- so, still ongoing. We certainly haven't given up on it, but it's clearly not going to be a big impact for us anytime soon.

Robert Smith: Is the efficacy of it, as such --

Larry Washow: The efficacy is real in particular applications and there's other ways to deal with the same issues, so whether this is one that's going to get some favor and turn out to be the best or the most interesting, so far it hasn't. There's other ways to skin the cat.

Robert Smith: Thanks a lot. Good luck.

Larry Washow: Thank you.

Operator: (OPERATOR INSTRUCTIONS). And we'll have a follow-up question with Rich Wesolowski with Sidoti & Company.

Rich Wesolowski: Thanks. Could you talk about any notable recent changes in activity at the margin in the various geographies you serve, maybe which you're seeing signs of at least stabilizing and which are perhaps getting worse?



Larry Washow: Probably the one area, and unfortunately, it's not big enough on a relative basis in our business to move the needle dramatically, but China does seem to be showing some signs of life. The automotive sales there in March were 1.1 million, which is an all-time record and the construction market there appears to have opened up a little bit. So I guess if anything sort of seems to be trending around the other way, it would appear China -- not any real visible exciting signs anywhere else that we can point to and say, yes, there's some real difference happening, unfortunately.

Lots of questions we get as to where is the bottom or are we at the bottom? And I think like everybody that ends up on this side of the microphone, it's really hard to know. I think the rate of decline certainly seems to have slowed, but when you read about all the activity in the automotive sector, what does that mean for consumer confidence, buying cars and all that?

The housing market still in the U.S. is in tough shape, so don't see a great deal of positive response in the U.S., but like I said, China may be the first glimmer where you start to see things and hopefully, that portends some good things down the road across the region there.

Rich Wesolowski: This now two quarters where the pricing for the mineral businesses have held. Have we passed the point where customers would have balked at paying higher rates?

Larry Washow: I don't know that you ever pass it, Rich, but I think we're very confident that we're fairly and reasonably priced. So we think that -- and I think the customers came to the same realization, that this is a valuable input and a product. We do a great job of supplying it and these are fair prices. Again, a 20% margin in minerals is nothing to get super-excited about -- better than we were, but from the standpoint of the customer, it's not as if we're minting money in this business. So I think we're in pretty good shape there.

Rich Wesolowski: Right. Well, your volume was down as well, which makes the 20% margin look a little better.

Larry Washow: Right, it does, yes.

Rich Wesolowski: Can you talk about any actions you've either taken or are considering on hedging energy costs, diesel, natural gas, to lock in (inaudible) better margins in minerals?

Larry Washow: We have been for last few quarters working with an outside firm who does this for a living and so we have been, especially on the natural gas, trying to make sure we've got that covered. Coal is one of our bigger inputs in terms of drying at our operation and we've got good contracts established on that.

Diesel is something we're looking at trying to really sort of consolidate our purchasing because we end up consuming diesel ourselves through our freight operation, our mining operation and the transport of the material around. So if we can really get our arms around it, and a lot of that is contracted out, so it's not something we directly control. But we're trying to figure out if there's a good way to leverage that and we are working again with an outside consulting group who does this for a living -- so trying to figure out if there's a way we can strengthen and get a better long-term stable situation as best we can in these volatile energy markets.

Rich Wesolowski: Are there kind of back-of-the-envelope numbers as to how much of your cost of sales comes from energy and maybe rank those three inputs as far how big they are?

Larry Washow: I think in terms of the cost of the material, diesel is probably the biggest because it's used in the mining and the transport to our plants, and then it would probably be coal, I would guess -- not positive about that, but coal and natural gas would be the next two, but diesel is the big one.

Rich Wesolowski: And how much of your total company's cost of goods would you say is energy? I'm sure it shifts around with the prices.

Don Pearson: Yes, I think in the mineral side, I think we've said about 25% at times can be due to energy, Rich.

Rich Wesolowski: Okay. Lastly, the Lining Tech sales trends have swung from plus 17 to minus 17 during the past two quarters. I don't know what that is ex currency. I'm sure it's a lot less, but I'm sure the direction is the same. Can you give us some more detail as to what gives you the confidence that the business will prove as steady as it's assumed to be over the next year or two?

Larry Washow: It's driven by the nature of the business and the projects. We do -- a lot of these projects are bid on a year in advance or six months in advance, so we have a strong tracking system. We know what the activity levels are. Historically, we've got a pretty good idea of determining which projects actually get built because not all of them do. It really depends on financing and especially when you get into places like Eastern Europe, if there's not some



World Bank financing or something lined up, you don't really count it as a project that'll go forward.

But given the levels of activity, the projects that we're looking at, the breadth of the business we're in, we're pretty comfortable that -- again, it's not going to be a growth year by any means, but I think we'll see slower -- smaller declines in the quarters ahead because the business will be there.

The benefit too is, Rich, we -- with eight plants around the world, we're active now in places like India, where we weren't before. We've been solid in China now for a few years, so we're well established there, and our European operations are well established as well. So we're really extremely well positioned for this marketplace and have been actively out there talking to architects and project managers for many, many years. So there is a good comfort level.

I think the difference, if you look at building materials, the commercial construction activity can stop very quickly, and it [had], and these are projects that, yes, there's a building company that wants to build, but there's no money. So they're not going to dig a hole in the ground and they're not going to do new waterproofing. A lot of these lining projects are related to environmental activity that needs to be done and they want to get done, and the money is there.

So, reasonably confident -- I'm not going to predict it's going to be a great year by any means, but I think the Lining Tech area will be pretty solid for our Environmental business.

Rich Wesolowski: Sorry, have one more. Can you flesh out the situation with the Indian government and potentially exporting bauxite again? I mean, is that even on the board?

Larry Washow: It's certainly a topic of ongoing discussion, but there's no reason to expect it's going to happen anytime soon. We just don't -- in our discussions with our partners, the government is fairly strong in their position that they really need to enhance the value in the country, so we don't see that situation changing anytime soon.

Rich Wesolowski: Thanks again.

Larry Washow: Thank you.

Operator: And we'll take our next follow-up question from Robert Smith with the Center for Performing Investing.

Robert Smith: Hi. Just circling back to the Mycotoxins, if this area would begin to blossom, what kind of a market opportunity is it, I mean, as far as size?

Larry Washow: It's certainly on a global basis a huge market potential and it really depends on the success we have with our partners and how it can develop, but it would be -- I don't have a good number in terms of dollar volume. Certainly, the potential is in the tens of thousands of tons of business at very good margins.

Robert Smith: Thank you.

Larry Washow: Thank you.

Operator: And it appears there are no further questions at this time. Mr. Washow, I would like to turn the conference back over to you for any additional or closing marks.

Larry Washow: Thank you. We appreciate your interest in the call today and look forward to talking to you again next quarter. Thank you.

Operator: And that does conclude today's conference. Thank you for your participation.