

Q2 Conference Call 2007

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July 20, 2007 10:00 a.m., CST

Operator: Good day and welcome to the AMCOL International Second Quarter 2007 Results conference call. Today's call is being recorded.

A replay of this call is available starting at 12:30 p.m. central time today. You may access the replay by dialing 888-203-1112 and referencing pass code 3363334.

Today's speakers are Mr. Larry Washow, President and Chief Executive Officer and Mr. Gary Castagna, Senior Vice President and 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. By now, you've, hopefully, had a chance to look over the press release from this morning talking about Q2 earnings for AMCOL. Over all a good quarter, sales up 19 percent, operating profit 29 percent and earnings per share up 26 percent.

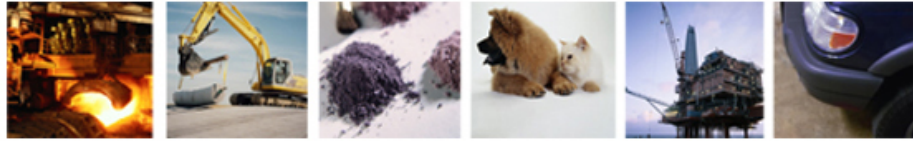
The encouraging thing, the growth really, a little more than half of that coming from acquisitions, because the acquisitions are delivering what we expect both in terms of revenue and profitability. Organic growth, about a third of our growth in the quarter and with the international operations, we certainly have the benefit of the strengthening currencies against the dollar.

I should mention as well, we noted it in the first paragraph, we sold a small business. When we acquired the detergent business in the U. some years ago, along with it came a desiccant business, a small packaging operation, didn't really fit long term with what we wanted to do.

So we sold that in Q1 and did have a slight negative impact on the earnings. But, going forward that's certainly not a business that would have been a benefit to us. So in looking at the ongoing business, obviously the challenge is still in the minerals area. We noted that the margins are softer in there.

Certainly the U.S. metal casting business declined. We've not really been able to completely off-set on the profit side, even though the revenues are up with strong business outside of the U.S. Our global markets continue to grow in the minerals sector and some of the specialty areas within minerals are doing very well in addition to that.

But the U.S. metal casting business is a very big chunk of business there so it does have an impact



and it shows up in the margins. We are expecting, in the quarters ahead, to see continued growth from the international operations, especially some of the newer ones that will be just coming into serious production and sales, and hopefully, that will begin to off-set some of that decline from the U.S. side.

The environmental sector, good, strong as they should be in the middle quarters of the year; doing very much as we expect them, U.S. and Europe are both growing nicely. Asia is very busy.

And really across the board, the environmental segment is in good shape. Nice range of product supply in markets virtually all over the world nicely split between the U.S. and the international side as well.

Oil field services, a little bit slower in the first quarter, but rebounded well in Q2, back on track for what our expectations are for them. Really delivering the package of services including the acquisitions that make up a big chunk of the growth for the markets that we're trying to get into in that field.

The U.S. base in the Gulf of Mexico certainly represents the lions share, but we do see opportunities internationally and we have activity in most of the major oil sectors around the world.

So we think the oil field services group, doing well, and given the state of that market, should continue that. A couple other notes, really, overhead GS&A up more than I would like to see it for sure, about half of that related to the acquisitions.

The other half pretty well scattered around, but certainly that's an area we're very cognizant of, need to look at and make sure we're managing it to the right point. And finally from my perspective, important to note that our international investments and our JVs doing particularly well, India notably, really providing a really nice contribution again this quarter up a good bit from last quarter, or last year's similar quarter.

So all in all, very positive, I think the mineral sector; we know we have work to do. Good plans there, I think we'll see results in the quarters ahead, but it is an important area for us as you can see.

With that, I'll ask Gary to give a quick financial update.

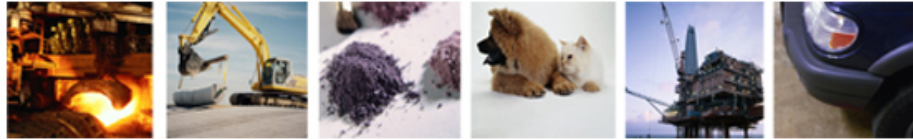
Gary Castagna:

Thank you, Larry. I'll focus in on our comments inserted into the financial overview area which we be answering questions later on other details. But you'll see there in the table which we inserted from, effective from the first quarter that breaks down our revenue composition from the various aspects of the base business or organic growth, acquisitions and FX.

Pattern, actually of contribution, slightly shifting now more base business generated growth in this quarter versus the first quarter. But, again, the lions share of our growth from our acquisitions. And foreign currencies, as expected because of the strong European and in some areas the Asian base, currencies have contributed to revenue growth.

And the gross margin and gross profit in general, solid improvement, 25.4 percent growth over the 2006 quarter as the relatively higher margin segments, in environmental and oil fields are contributing a lions share of the sales growth. And consequently, that materializes in a higher gross margin, which improved by 130 basis points to 27.3 percent this quarter.

Larry mentioned also, just within that, of course, our mineral segment, and we certainly have not and will not be loosing focus on the opportunities to improve that area. That quarters gross margin, that segments gross margin was a bit under where we'd certainly seen it in the first quarter and continue



to look at opportunities to improve that area.

Higher manufacturing costs in both here, the U.S. and in the Asia influenced that downward this quarter. The oil field, I think, is probably the other one to note because of the significant rebound over the first quarter's gross margin, really had a, in essence, a mixed change there.

Along with the revenue composition, a lot of the product and service revenue generated in this quarter, was with more profitable stream to us rather than in the first quarter where we had sales there that incorporated outside party costs that influenced the gross margin downward.

GS&A, Larry mentioned before, and I think we've got quite a bit of detail here in terms of the issues of GS&A, which about half again of that attributed to acquired businesses. Quite a bit of that acquired business, GS&A I haven't got the exact number out of the three million, but I believe for the quarter, in excess of 1 million.

Of that 3 million of GS&A is amortization charges. Operating profit; moving ahead at 29.1 percent commensurate with the strong gross profit growth, again the higher margin segments, environmental and oil field leading to an improvement in the margins from 9.7 percent last year to 10.5 percent this year.

Interest expense as with the first quarter, higher at 1.5 million over the prior year quarter, debt levels, as you can see, commensurate with the acquisitions that were completed over the first of this year and later half of '06.

Tax rate declined to 24.7 percent for the quarter. Effective rate, year-to-date now I believe is just in excess of 25 percent. The revision there reflects our latest estimates in terms of our composition of income from various tax jurisdictions.

So there were no one time particular off-sets to the tax rate in this quarter. And the income from joint ventures and affiliates, again, very strong contribution from our investment in India, Ashapur Minechem as many of you have been researching and note that they have significant interest in bauxite.

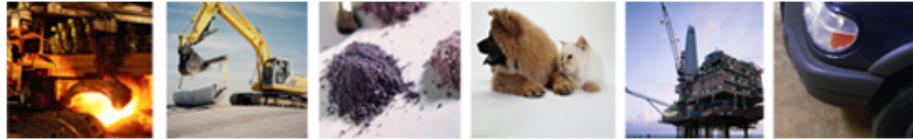
And that business has been moving significantly with the aluminum production in China being the main driver for their revenue stream here in the last couple of years, actually. Share account relatively unchanged at the quarter.

The financial, the balance sheet and financial position side, debt levels at \$168 million at the end of June, increase from 112 at the end of the year, that is again about 35 percent of capitalization, total debt capitol.

And that's about where we were at the end of the first quarter. Cash, actually, a bit of an up tick in cash to 25 million from 17 million at the end of the year. Working capitol, an area of focus we've mentioned here previously, ended the quarter at 201 million, upward from the end of the first quarter, but none-the-less, probably the slowest increase relative to sales that we've had in some time.

So we are beginning to see some fruits from that movement on focusing on working capital which in turn brought out one of the more positive metrics of the quarter where operating cash flow was \$25.6 million for the first six months of the year, nearly \$20 million ahead of last years pace.

So we are beginning to see movement from if you will accounting earnings into cash earnings, investing activities very evident there with the acquisitions that in excess of \$38 million so far this



year.

The three acquisitions, the last one which we announced during the quarter was our acquisition in Turkey of significant mineral operation there. Capital expenditures just about on par with prior year, \$21.9 million again a lot of different elements there in CapEx throughout the year that are in flux.

But we had an outlook there of approximately in excess of \$40 to \$45 million of CapEx. This year we see that continuing. And share repurchases in the quarter all year-to-date and within the quarter, we purchased 250,000 shares of stock at average price of \$24.34.

An aggregate total of \$6.1 million and we increased our dividend 22 percent over the prior year to this point at \$8.4 million. That's sort of the highlights of our financials.

Larry Washow:

All right with that Christopher we'll open up for questions.

Operator

Thank you. Today's question and answer session will be conducted electronically. To ask a question, please press star one on your telephone keypad at this time. If you are on a speakerphone, please pick up your handset or disengage your mute function to ensure your signal can reach our equipment. And once again, that is star one to ask a question at this time.

And we'll take our first question from Jay Harris with Goldsmith & Harris.

Jay Harris: Good morning, gentlemen.

Larry Washow: Good morning.

Gary Castagna: Hello Jay.

Jay Harris:

I have a number of questions but let me start with the general and if we have time we'll get to the specific. Most companies that are doing well are doing well this year because of international operations. So I'd like to hear some conversation about how you're revenue base is shifting between domestic and international sales.

Larry Washow:

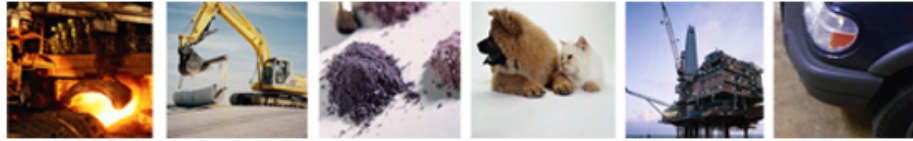
Not a rapid change yet. I think the environmental sector when you look at the business growth the U.S. has grown as well as Europe and Asia. But the balance I kind of think perhaps Europe is slightly greater in terms of the revenue growth and the U.S. site. Oil field services on the hand I think it's mostly U.S. driven in terms of the growth that we've seen there.

In fact some of the international side had been a little bit softer with some of the activity going on in that sector. Minerals most of the growth outside of the U.S. if you look at the -- where the revenues are coming from the downside of the metal casting coming down we do see a little bit of upside in some of our pet products and specialty areas.

But certainly some of that growth probably a fair chunk of that comes from overseas. So kind of mixed bag but in our case I would say not the majority of growth from overseas but a reasonable portion of it.

Gary Castagna:

Yes Jay on that score, we have a breakdown by region the America's are pretty consistent actually



with where they ran last year. And through the first quarter this year, just shy of 70 percent, 69 percent of our revenue is -- and this is dollar base so it's not really adjusting for constant currency nor is it extracting out acquisitions.

And one of the issues in that is that the acquisitions if you look five of the six acquisitions that we completed in the last year are all predominately U.S. revenue based. So there's a bit of a skewing affect that's occurred here, but nonetheless Europe, Middle East, Africa is about 23 percent and Asia Pacific has maintained eight percent.

If you looked at it on a base business basis as Larry has said you would really try to -- extracting out the acquisitions clearly the Asia Pacific related business is -- and Europe mainly focused in Central Eastern Europe have definitely been if you will the -- by far the highest growing areas of the organization right now.

Jay Harris:

What can you say about the untapped opportunities going forward? In other words talk about the penetration of available markets or however else you might want to express it.

Larry Washow:

Yes a couple quick comments here. I think certainly when we look at opportunities as we have in China we opened up two new facilities there over the last few months. And they're really just getting going.

The opportunity we think is very strong for continued growth certainly not just within China but in that whole region with China obviously being the driver. And we -- I don't believe we've gotten anywhere near the types of penetration that we expect in years ahead there. Similar story I think in Eastern Europe and Central Europe.

We've had to find and pull in for some time with the Turkish operation now moving us further east there's really tremendous opportunities I think in that whole region. Both from the narrow side and the environmental as well we're seeing great interest in our environmental products really in almost every developing area of the world.

So I think the prospects are very strong. The U.S. it is what it is, the growth with acquisitions and a little bit of market growth is there. But certainly the overseas activities in both Asia and predominately Central and Eastern Europe are where see really significant opportunities for several years ahead.

Jay Harris: I'll get back in the queue, thank you.

Larry Washow: Sure.

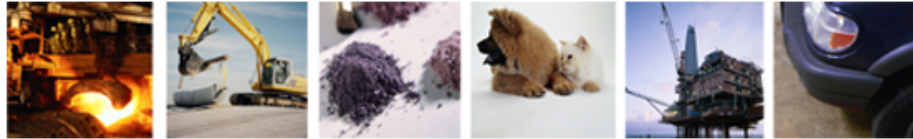
Operator: And we will now take a question from Al Kaschalk with Wedbush Morgan.

Al Kaschalk: Good morning Larry, good morning Gary.

Larry Washow: Yes.

Al Kaschalk: Just real quick a follow up on Jay's question there. Is there any way you can quantify the dollars that the facilities will be able to maybe have in terms of output whether that's revenue dollars or units or some type of scale.

Larry Washow: The new facilities?



AI Kaschalk: Yes in Asia and the ones in Eastern and Central Europe. I mean I think what Jay's trying to get at is how much more of an opportunity is there to shift say on a run rate 30, 35 percent of your business to grow that to 40 to 50 percent over time.

Larry Washow:

Yes I think you certainly are medium term expectation would to go to the international markets. And I mean Asia's been kind of consistently in the eight percent of our sales for the last couple of years. Now obviously those sales are growing.

So they're growing there as well. I would expect in the years ahead for that to become a larger percentage than that. Certainly if you look AMCOL on a global basis it would be surprising if Asia within the next five years wasn't in the 20 to 25 percent of revenue type range.

And Central and Eastern Europe already a nice contributor in terms of the sort of mid 20s percentage of our sales and with continuing growth there -- again I think we'll see that in the 30s, certainly in the years ahead. Before we did several acquisitions in some of the U.S. business rank then we had position where half of our operating profits I think were generated overseas.

That's obviously not the case now, but certainly I think in -- within the next few years that will be the case again on much higher sales basis.

AI Kaschalk: OK. And then on the acquisition in Turkey, could you maybe just add a little bit more color on the implications strategically because it certainly seems to be centered in the right part of the world. And the quality of the business from what I understand is of a nature that's very demanding over in Asia.

Larry Washow:

That's really for us a very good acquisition AI, the -- one of the nice things about Turkey and we've been looking at minerals there over the last two to three years. There's really some outstanding reserves of pretty unique bentonites more specialty bentonites. The white, lighter colored bentonites are common in Turkey more so than most other areas.

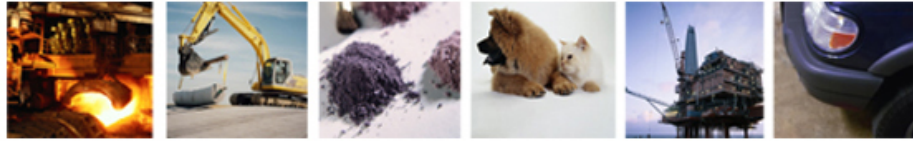
And some of the performance attributes fit in very nicely with the specialty markets like detergent and paper and things like that. So we see some real opportunities in the specialty markets. But there's also very good kind of traditional bentonite for the traditional markets of metal casting and things like that.

And it's really a developing area obviously so this is a company that has a nice business base. But one we think with the experience we have we can grow dramatically not just within Turkey but really focus in some of the opportunities to export that raw material, so that's going to be a very nice business for us in the years ahead.

AI Kaschalk: And then finally on minerals in the specialty or metal casting. It's clearly been a sore spot I'm sure for you as well but in terms of expectations and what was delivered. But are there things there from a cost structure or, that you have to think about whether you have either too much capacity or is it really just a function that end market is soft.

And then related to that, the other businesses within that segment doesn't seem like their gaining enough traction right at the moment or at this point to maybe off

AI Kaschalk: to function. That end market is soft. And then related to that, the other businesses within that segment doesn't seem like they're gaining enough traction right at the moment or at this



point to maybe offset some of that margin compression.

Gary Castagna: Yes it's really the question of scale really, because the metal casting is such a big portion of the minerals business. When that drops by whatever, several percentage points, the other businesses have to grow dramatically to really offset that. So there are clearly the expectation is we do need to grow the specialty businesses faster and the international businesses where the margins can be better. That's obviously where we're going to focus.

We're not really -- we believe there are some cost opportunities on the U.S. side as well. We are, we are focused on that and it's pretty clear to me anyway -- I could be wrong as I often am -- but I don't think the continental casting blip is just going to be a quarter or two. I think that's going to be fairly sustained at least for the next several quarters.

So we do need to take a look and make sure we've got the right cost phase to properly support that market in the U.S. and make sure we can continue the investment and the focus on the other markets.

Male: Yes AI, one other point though. When you mentioned capacity I just wanted to emphasize that we clearly do not have access capacity. This is more of a situation perhaps to really focus it in toward efficiency. But recall that we feed a lot of our overseas operations from our plants here in the U.S.

So those demand levels are strong so that the plants are running actually pretty high-end of capacity. It's really trying to keep the incremental costs in line with the demand levels. And it's a big of a challenge but certainly manageable.

AI Kaschalk: But I mean it's going to be a, it sounds like -- and I'll, hopefully I can queue here -- but it sounds like pricing, you don't have any opportunities there and volumes are flat. So it seems to me on the near term we're going to need some cost improvements to get the margins sustained so that they can get any lift from the other businesses, so ...

Male: Yes, you got some work to do.

AI Kaschalk: I know.

Gary Castagna: In certain domestic markets I would phrase that out is where we may have, when you're saying volume is flat, demand and whatnot, clearly the high volume-oriented markets are more flat in that respect.

AI Kaschalk: And that, you're referring to automotive? Or you're referring to ...

Gary Castagna: Mid-level casting.

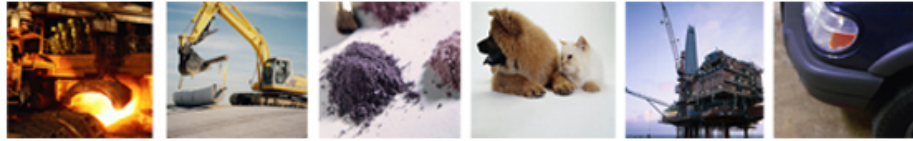
AI Kaschalk: Yes. OK, thank you.

Gary Castagna: Yes.

Operator: And we will now take a question from Todd Vencil from Davenport.

Todd Vencil: Hey, thanks a lot. Nice quarter, guys.

Gary Castagna: Thank you.



Todd Vencil: Looking at the oil field services results, can we circle back around to Q1? You mentioned outside party costs. Can you tell us what those were?

Gary Castagna: Well the -- what we offered a customer is, kind of backing it up, is essentially a role product service for a project.

Todd Vencil: Yes.

Gary Castagna: So when they move mobilized equipment and personnel and odd materials meaning our media in some cases that we use for filtration, you also have to bring in other, if you will, chutes and ladders as you might want to call them, a lot of other tools that are used in the, that project.

The pricing and whatnot with those customers, it can then have different influences from the amount of materials that we, and product we have to buy from outside parties which are essentially pass-through revenue, you see.

Todd Vencil: Right.

Gary Castagna: To the end customer. And some of those projects -- it appears that in the first quarter we had more of that type of work than say here in the second quarter, and perhaps even in the second quarter it sort of rebounded even beyond let's say a typical version where we were running last year. But at the end of it all, the mix that is more -- let's call it internally generated revenue, was much higher in the second quarter.

Todd Vencil: That makes sense. Is that, is that just the mix of product or the mix of jobs that you happen to have or is there any seasonality or any strategic shift that went on there?

Male: I kind of agree with you. I think in the first quarter we did have some business filling out some equipment and people that turned out not to really be all that profitable and going forward, that's the kind of business that's obviously better that we skip over that, and wait or get onto the higher margin businesses. So I think the second quarter should be more representative of what we expect from that group.

Todd Vencil: OK, good. And then my recollection was that we were looking for some tough comps in the second quarter related to more still on Hurricane Katrina. Am I remembering that right? And if so, you just need to overcome it nicely.

Male: A little bit of left over, mostly that was in the first quarter though. So there it was ...

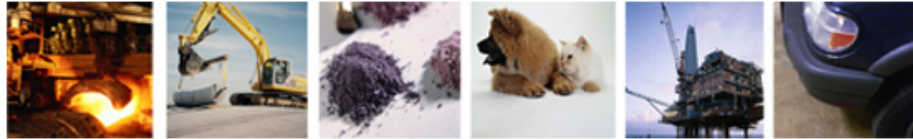
Todd Vencil: Mostly ...

Male: ... over in the second but a lot of that was first.

Todd Vencil: Not as much as Q1 '06.

Male: Right.

Todd Vencil: OK. You made a number, a number of acquisitions over the last year so what's the outlook for that at this point? Sure you talked about the geographic areas I guess, so where you think the opportunities are broadly speaking, but what's your near-term outlook for acquisitions in terms of segments maybe?



Male: Well certainly considering what's out there and involved in, there's some interesting things. At this juncture there's a couple of smaller things both in environmental and minerals that look interesting but probably scale-wise, nothing really significant that I see over the next quarter or two anyway.

Todd Vencil: OK. And then I guess just finally some housekeeping and I'll let you guys go. I guess this is for Gary. You talk about your outlook for the year for tax rate CapEx and D&A, and CapEx I'm not including acquisitions there.

Gary Castagna: That's right. Yes. In the CapEx, you mean?

Todd Vencil: Well yes. Exactly.

Gary Castagna: Yes. That would only be internal caps.

Todd Vencil: Right. OK. So can you talk about for this year what your, what your budgets are on this?

Gary Castagna: The capital expenditures, a lot of programs in the works, a lot in fact where there could be some growth capital that'll tail over into '08, but we look at the actual spend projection at this point. I think where we were at the end of June at just shy of 22 ...

Todd Vencil: Yes.

Gary Castagna: ... probably not out of the question to look, to double that to see where we would be by the end of the year.

Todd Vencil: OK. Similar for depreciation amortization?

Gary Castagna: I -- yes, pretty much. It might -- having said that, it might uptake a bit in the second half because amortization which I think in this quarter is probably at least \$2 if not \$3 million I think of the D&A that we've had year-to-date which is just shy of \$14 million.

Todd Vencil: Yes.

Gary Castagna: But probably going to be running at a higher rate in the second half of the year because it's associated with some of the acquisitions that we completed in the first half of this year.

Todd Vencil: Yes.

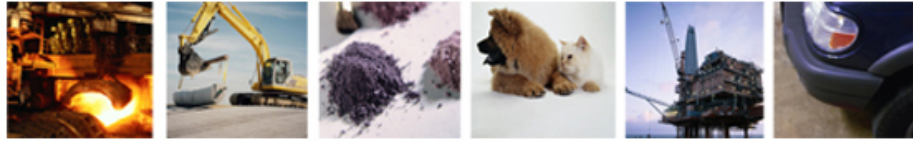
Gary Castagna: So it might be a little bit of a higher run rate. \$4 million maybe annually.

Todd Vencil: OK. And then the tax rate, you think it sort of hangs around 25ish level that it's been the past two quarters?

Gary Castagna: Yes. It looks like it. We -- our early indications of the year because of our tax positions and everything were a bit higher than that in the 26 range. But I think as we're progressing in the year here, probably more comfortable in the 25, low 25ish range probably is effective range.

Todd Vencil: OK, thanks a lot.

Operator: And we'll now take a question from Rich Wesolowski with Sidoti and Company.



Rich Wesolowski: Gary, I don't exactly understand what were the rising costs, the things you in the metal casting business. Can you elaborate on those?

Gary Castagna: The manufacturing costs.

Rich Wesolowski: What sort of manufacturing costs?

Gary Castagna: The mineral side. Really Rich, it's a kind of across the board areas. It's spending-type initiatives at the plants, et cetera. Some of the areas in the -- and even in, even in moving the goods, the hauling and so forth from clay, you name it, they've all been sort of added to the energy.

Rich Wesolowski: OK.

Gary Castagna: That's also the case in Asia. I guess we didn't talk about that but our -- certainly one of the areas -- we have just started up a couple of operations in Asia we mentioned. On a scale compared to the U.S. clearly smaller. But the Tianjin plant really just getting up and going in the first half and also a new mine venture that we announced last year right around this time in Australia.

Both really just getting off the ground. So you are getting some front loading of costs, not only on a manufacturing by the way but also on the overhead that influenced the quarter as well on the comps.

Rich Wesolowski: OK. Did the positive influence that we heard about last quarter in curtailing some low-margin business in pet products and also a little faster growth in the high-margin health and beauty, did that have an effect on 2Q as well?

Male: Both of those were -- yes, they did. And they were both positive again in Q2, but again, not enough to offset the negative side of the metal casting.

Gary Castagna: Yes, there's one other area to from a margin perspective we just kind of really researching this late yesterday before we could really incorporate any comments in the relief but also another aspect in terms of revenue in our domestic business' is outbound freight.

And to give you an example I think that almost a third of the increase in the segments revenue over last year, the quarter, the 85 and change versus 79, is actually outbound freight charges. For instance in some of the areas like our pet products business, in particular, our terms of sale are such that those -- the prices charged the customer include the cost of freight, you see,

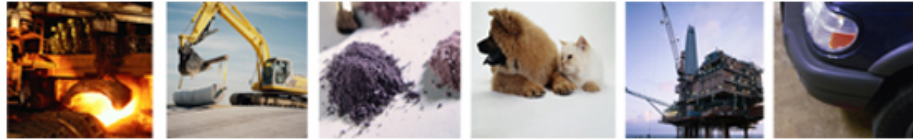
Male: Which is just a ...

Male: Potentially a ((inaudible)), so you've got a mix of dilution of revenue, excuse me, dilution of the margin impact because there is a fairly high component of the growth that's included in basically zero margin revenue base.

Male: So considering all that we used to talk about the mineral segment getting to a 21 or 22 percent gross margin, do you think that's too aggressive to expect within the next six quarters?

Male: I don't Rich. I think that's really where it should be. That's where it needs to be and I think as we get these agent operations contributing and obviously we've got to make sure on the pricing that we are capturing all the freight costs and things, I think we can get back into the low 20s.

Male: OK. Organic growth picked up from where we saw in the second quarter. Is that something you expect to continue in the mid to high single digit rate and, you know, what are the big factors or



markets that could surprise you either on the up side or down side?

Male: I think that sort of rate is sustainable. Again a lot of that is driven around the environmental side and everything we can see anyway, those markets continue to be very strong. If building for example slowed down dramatically in Europe that would certainly have some impact on our organic growth because that's one of the stronger growth elements that we have in play right now.

I would hope on the mineral side that, you know, we get back to something or we hit a bottom here sooner or later. We could actually start to see some organic growth there and that will obviously come not so much from the US but from outside in the other developing areas. So that I would hope would kind of support the organic side in the quarters ahead as well.

Again if there's a real shock somewhere and things slow down dramatically, that could impact all of that but I think, yes, the single digit side can hopefully moving that up in the quarters ahead for organic growth as a realistic target.

Male: How much amortization is left to be recognized from the acquisitions?

Male: Left? You mean in total, like what would be the assets on the balance sheet?

Male: Yes, I mean it's, you know, I don't think we've got quite a million dollars of amortization, maybe I'm wrong, in the March quarter. We got more than that in June. You remarked that maybe we should expect even more in September, December.

Male: Well the reasoning is more about the timing of the acquisitions, Rich, because as an example we complete the Turkish acquisition in May, right. So we only just started and we only have preliminary estimates by the way of what the intangible values are there that we have to subscribe to the purchase price. But what we have to do is firm up those estimates to the appropriate valuation and then incorporate an amortization.

But to give you an idea, the average amortization level for the largest portions of these assets is, you know, many years. It could be as many as 10 years in certain areas there. But what I guess I'm getting at is that you've got some acquisitions that just been completed in the first half of the year, so if you call it, an annualized running rate of amortization will really be in effect for the second half of the year.

Male: OK.

Male: Think it's a slight up tick but it's not a moving target. Once you set those numbers, they stay the same for quite some time.

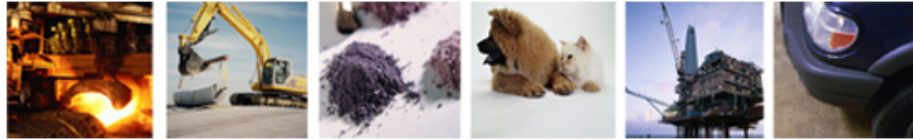
And certainly this year and I guess I comment looking ahead to 08, the amortization charges will be pretty much the same.

Male: OK. Finally how much of the joint venture line is Ashapur.

Male: The lion share.

Male: Yes, over 90 percent of it.

Male: Yes.



Male: Well, the Ashapur and the 50 percent joint ventures as well. They're very, very successful ventures as well in combination. Both of them are 90 percent.

Male: So if Ashapur succeeds in doubling their bulk side shipments over their fiscal year March, would you expect you're JV income over the next 12 months to double as well or something close to it?

Male: You're picking that up off of some comments you've gotten from there. I.

Male: That was something I had read in a paper.

Male: They have commented themselves in the Indian press about their shipment. They have potential, there's no doubt, to double based upon of course demand. As you know aluminum itself is a commodity, huge demand going on in China right now, but I think that comment was more I think another year ahead of this last year. They have a March fiscal year so it -- their doubling issue really was a two year time span not a one year time span.

Male: OK.

Male: However, they're quite confident given what they have in access to the market ((inaudible)) the right place, the right material, and the demand site was there.

Male: What do you think the risks are in that scenario?

Male: Always ((inaudible)) side, Rich, as long as the demand continues they've got an excellent raw material. They've got good access to the ocean shipping markets. They're shipping significant volumes. So they've got attention from the shippers as long as the customers continue to need the material. They're in very good shape.

Male: Great. Thank you.

Male: Thank you.

Operator: And we will now take a question from Robert Smith with Center for Performance Investments.

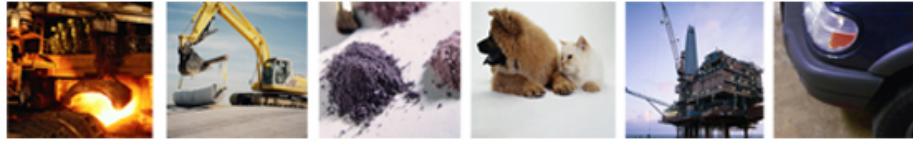
Robert Smith: Good morning.

Male: Good morning.

Robert Smith: Could you share with us the promise that you've been making in the nanotechnology field and this is a fast evolving landscape, so to speak, and I'm wondering what's new that you could also share with us.

Male: Robert, nanotechnology, we don't talk in great deal about that much anymore as you know in part because it's a very small piece of our business. We have seen a little bit of sales growth. We have had a little bit of success in the fire retardant area where you use the nanoclay in blended with plastic to provide a fire retardant capability on cable and wire. Seen some positive results there. Had a few things going in the barrier market that are interesting.

It's an interesting niche product but beyond that at least we have not found, you know, any significant



market that's really going to move the needle from an AMCOL perspective.

Robert Smith: What kind of an effort is in the area?

Male: We're spending a couple million dollars a year.

Robert Smith: Anything that you can say on the medical front?

Male: Well we do have some as you know we announced some technology a little over a year ago on ((inaudible)) using some of the nanotechnology and continue to go through the development market phases of that.

And that does actually look very interesting. We've got a ways to go before it's a commercial product, obviously, but certainly the attributes we are seeing have been repeated in other labs and we're getting some backup testing and getting some discussions going with potential customers.

So that area does have some potential. That could be very positive and could be much more interesting than some of the historical nano things we've looked at. But that one is probably a few years away.

Robert Smith: That's encouraging and I'm glad you characterized it because of being of significant potential.

Thanks a lot. Good luck.

Male: Thank you.

Operator: And we will now take a follow up question from Jay Harris.

Jay Harris: Gary, do the debt levels impose any problem for continuing to grow the dividend?

Male: I think Jay that you know the dividend is more on the outlook side. I think that when we look at where we're at debt and other uses of cash at this point that it, we're in a comfort zone, let's call it.

I mean I think we've obviously done a rapid amount of expenditure in the last year and the cash generation, you mentioned, kind of coming out of the quarter certainly starting to show up there so I think our dividend policy which is something we clearly watch very carefully and want to adhere to is probably not going to remain unchanged.

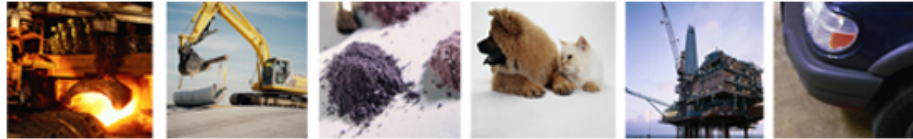
Jay Harris: Well, as I look at the first six months, I don't know whether I should add the mineral reserve acquisition to your capital expenditures or whether that's just part of the Turkish acquisition.

But it looks like you spent the cash flow from operations in capital expenditures plus mineral reserves. And you then spent, I don't have the numbers in front of me, but \$6, \$7, \$8 million on buying back stock.

Male: Stock yes.

Jay Harris: And then you did an acquisition, I guess two acquisitions in the first six months.

Male: Three, actually we finished three.



Jay Harris: All right, three.

Male: Right.

Jay Harris: If you're going to continue and it's not clear looking at your financials, where you're cash flow from operations are going. Whether the seasonal peak in the last half of the year, so we're getting just an early glimpse of a rise or whether the cash generated in the second quarter relative to revenues is roughly in the right range.

And so if you continue to find tuck-in acquisitions, and drive your debt-to-capitalization ratio a little higher, I just wonder how the Board is likely to react in terms of keeping the pay-out ratio where it has been.

Male: Hard to speak on behalf of the whole Board, obviously Jay, but I think historically they've demonstrated a strong comfort level and try to maintaining pay-out ratios in the range that we've done over the last several years.

And on a relative basis, when you look at the impact of the dividend cash, it's not a huge number.

Male: Every penny is about \$1.2 million right now, so we look at per quarter, per quarter.

Jay Harris: Right.

Male: So you've got about, let's say \$4 million for, you know, an annualized rate of change for a penny.

But Jay the question, that remark that you were looking for there, with respect to cash flow generation, traditionally the third and fourth quarters have been the better cash flow generation, particularly the fourth quarter because we do as you know have this seasonal cycles, including environmental business, receivables tend to peak and then you have more collection turn around there.

So despite the last couple of years where it has not been as close to net income level as we like, we think the operating cash flow levels, at least coming into the trend right now are on more uptick. So indeed.

Jay Harris: Would you be running a free cash flow absent acquisitions?

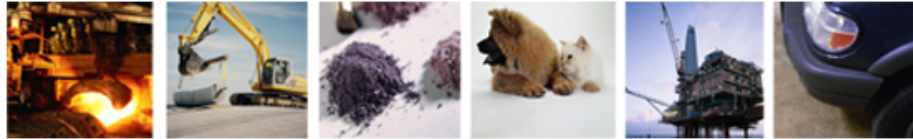
Gary Castagna: Yes. I mean certainly, if you looked at acquisitions there has been a little bit, and maybe that's where you were talking about, but we had a little bit of further investment in our joint venture areas as well.

Jay Harris: Right.

Gary Castagna: That's going to moderate though. That will not be as much as it was in the first half, but if you just said CapEx related, you're looking at the low to mid-40's. We definitely will have free cash flow over and above the CapEx.

Jay Harris: Could you share with us your targets on operating expense ratio?

Gary Castagna: Not certain that we actually said a target. I think we're just around, and in total, around 16 percent.



Jay Harris: Larry in his introductory remarks indicated that the operating expense SG&A was a little higher than he would like to see them.

Larry Washow: And Jay, talking about counting the aggregate growth of that obviously, I mean you look at the 20 plus percent counted growth, it should not be percent per sales and overhead, it should be half or less side growth to get the revenue generation we should have, and we didn't do that obviously this quarter.

Jay Harris: All right. And was Turkey a net positive in the month of June.

Gary Castagna: A slight yes, yes it was a positive.

Jay Harris: OK, and on your oil field service activities, to what extent as you bulk up this business and grow it do revenues represent bentonite based services and to what extent are you acquiring other related services?

Larry Washow: The vast majority of the revenue, certainly all of the growth and much of the base revenue is non-bentonite based. It's equipment, its people, its services. There is a bentonite component use in the filtration side, but if you look the percentage of the revenue, it's certainly in single digits.

Jay Harris: And so what does that imply looking out over a five or six year period as to what your intentions are in going into this market?

Gary Castagna: Our intentions, really we think there is a good opportunity right now, just given the nature of the oil field business on a global basis. If we can bring, you know, 20 plus percent operating margins to a growing or nicely growing segment of AMCOL, to me that's a long-term thing nice to have around.

Jay Harris: I agree, and I find it interesting that your diversifying your product line in this respect.

Gary Castagna: Kind of like the olden days, you had a little company (Chemdal) way back when that really started off some of the work we did and a lot of the services and things coming around oil field are actually things that we have in our developing as well.

(Chemdal) happened to be sold at some juncture, but I certainly would not predict that for oil field services, I think they've got a good long-term high value run for us.

Jay Harris: Thank you very much.

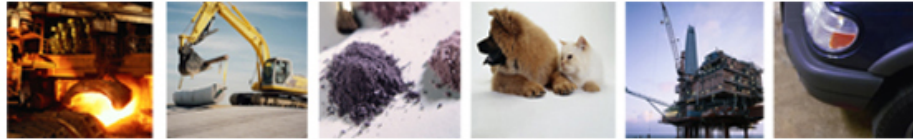
Gary Castagna: Thank you.

Operator: And we will now take a question Andrew Nelson with Nelson and Associates.

Andrew Nelson: Good morning.

Gary Castagna: Good morning Andrew.

Andrew Nelson: You've pretty much answered all my questions, I was just wondering as you go forward and you've alluded to it, what future acquisitions are you looking for add-ons or for new products?



Gary Castagna: A little bit of both Andrew, what we really do, the Turkish one is a good example where we certainly like to broad the geographical base of our bentonite business and where there's opportunities to do that and there's certainly still some areas in the world where we don't have a strong position. We will continue to look for that.

At the same time, some of the, like the AVS acquisition really brought us technology and a broader product portfolio to a market that we already serve. And that's a nice add-on as well. So we tend to look at both, in most of the acquisitions if you look back over the last couple of years, have either brought us new services for existing markets, or new technology.

Or in the case BENZON and some of the bentonite that related things, a broader presence in a well established market. So we try to do a little bit of both, I don't know that we focus on any one or the other, really depends on what opportunities arise.

Andrew Nelson: Looking, do you have any outlook for each of the divisions that you're operating right now for, people mentioned six years out or whatever, let's say you probably have some projections for the total year of 2007. Can you just make some general comments about what you see is the strengths of each one?

Gary Castagna: Yes, we as you know, we don't really provide any specific guidance, but obviously we think the oil field service business will continue to be a real solid contributor, that market just is so strong with the price of oil and the drilling activities going on around the world, that we think that's a very good long-term growth scenario for us.

Our environmental business continues good growth, we expect there as well, particularly in developing areas. China's done very well for us, we have a plant in India now that's selling very well, I would not be surprised if we decide to add some additional plants in developing markets around the world.

It is not a big capital expenditure, but they produce a very nice return and provide some good growth opportunities. I think environmental will continue to be a good grower.

Minerals, minerals will always be a challenge. It's our biggest segment on its own. But it's still highly concentrated in the U.S., so it takes some time for us to build up a similar scale overseas, but we're working very hard on that, certainly China's a dramatically bigger portion of our business than it was five years ago, and five years from now it'll be dramatically bigger than it is today.

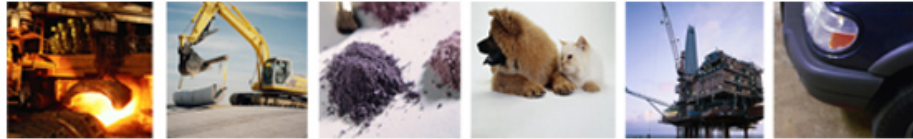
So we look at the mineral side really as a global play, the Turkish acquisition obviously leading into some opportunities in that part of the world that we couldn't serve from existing operations, so all in all, we don't see any areas where we don't expect reasonable growth, different ways to get there, different markets that we're in, but pretty optimistic about the future.

Andrew Nelson: Thank you very much. Have a great day.

Gary Castagna: Thank you.

Operator: And we'll take a follow-up question from Rich Wesolowski with Fidelity and Company.

Rich Wesolowski: Thank you. Can you guys quickly discuss the backlog in your oil field segment and detail whether the level of sub-contract costs and low margin stuff is closer to level of 1Q or 2Q or maybe somewhere in between?



Gary Castagna: That's a tough one. It's not a business that runs a big backlog actually, I mean we obviously did on projects and their out there, but for example, I mean the environmental segment. We've got several million dollars worth of projects in backlog that'll ship over the next few quarters, that's not true in oil field.

We do have projects of things and a line up of things over the next several weeks and probably getting out to a couple of months. But it's safe to say the amount of that kind of passed through low margin business that we ran into in Q1; we don't expect to do that again.

It doesn't mean we won't find some situations where there's a little bit of that, but in terms of the scale and the size, the percentage of our business, that was really very low margin in Q1, that we don't expect to repeat again.

Rich Wesolowski: OK, and an ongoing, you know, kind of run rate gross margin for this time would be in the high-30's range?

Gary Castagna: I think that's a good, yes.

Rich Wesolowski: OK. And finally just kind of distilling the conversation earlier on the capital structure, this basically a peak for debt load?

Larry Washow: Well, I think in terms of relative to total cap, you know, the 35 percent level is a long-term, actually if you go way back a number of years; it's sort of a comfort level zone.

I think it's peak in the sense that absent any other acquisition activity, if you look at it from operating cash flow and free cash flow levels, we should be able to be on the positive side of that ledger so we can support, again, our dividend policy and still be able to start chopping at the debt as necessary, but I think the way we look at is it's very comfortable level of debt as it stands today.

Rich Wesolowski: Great. Thanks a lot.

Larry Washow: Thank you.

Operator: And just as a reminder if you would like to ask a question at this time, please press star one now. And gentlemen that appears to be all the questions we have today.

Larry Washow: OK. Thank you all for joining us today, we'll talk to you again next quarter.

Operator: This concludes today's presentation, thank you for your attendance.

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