

Q3 Conference Call 2007

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October 19, 2007 10:00 a.m., CST

Operator: Good day, everyone, and welcome to the AMCOL International Third Quarter 2007 Earnings Results Conference Call. Today's call is being recorded. A replay of this call will be available starting at 12:30 p.m. Central time today. You may access the replay by dialing 888-203-1112 and referencing passcode 3363334. And your speakers today will be Mr. Larry Washow, President and Chief Executive Officer, and Mr. Gary Castagna, Senior Vice President and Chief Financial Officer. At this time, I would like to turn the conference over to Mr. Larry Washow. Please go ahead, sir.

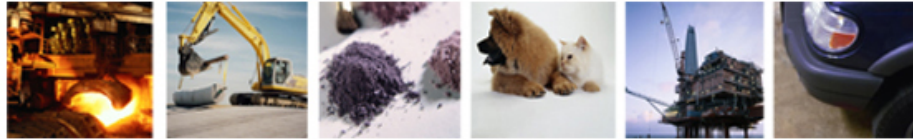
Larry Washow:

Thank you, Darrell, and welcome, everybody. You've probably had a chance to look over the press release that went out earlier this morning. Overall a strong quarter. We talked about a couple of the anomalies quarter-over-quarter in the press release, namely the tax benefit that we had last year and the landfill we had this year, but obviously, excluding those, certainly still a very good quarter for AMCOL.

If you look at the segment data, and I want to spend a little more time perhaps on the mineral side that we usually do, there's a lot going on there. And if there's a disappointing area that would certainly be the one. As you noted, most of the growth in the minerals area came from acquisitions. We purchased a plant in Turkey earlier this year and included in the acquisition is the--a plant that we purchased last year for our metal casting business in the U.S. Not surprisingly given the car sales and things, the U.S. metal casting market is indeed soft and that has affected our business. The growth that we have seen really has come from outside the U.S., not surprisingly.

Overhead GS&A, as mentioned in the press release, about half of the increase in the overhead is related to acquisition amortizations and other expenses, so while the overhead is definitely up a good bit, a fair portion of that is related to the acquisition. Another element I think that's important to keep in mind, we talk about transportation revenue. We do have customers who we ship on a delivered basis, and so we're billing them for the transportation. It is part of the sales line, and of course, that's generally passed through at cost. So while the last couple quarters we have seen an increase in the number of customers that we ship on a delivered basis, that has impacted the sales volume in a positive way, but also the margins in a negative way. So a portion of the margin decrease that we see in the mineral segment is related to that transportation revenue.

Another operating note probably, we have plants coming up to speed in Tianjin, China that we've talked about. Those plants are not contributing yet, and certainly some of the overhead costs associated with those are incorporated in here as well. So we should see improvement from there



certainly over the next couple of quarters, and there's no question that we still are very aggressively and actively working on the costs on the minerals side.

Looking down the line to environmental, a very nice quarter. Third quarter is typically the strongest quarter for environmental. This year, once again, very solid all the way around. Even though the U.S. construction market is indeed slowing down, Europe is doing very well, Asia is very strong. We do see just a slight decline in gross profit and as we mentioned in the press release, one of the growth elements in the U.S. that is doing very well is our contracting business, a business we bought a few years ago, and that's growing very nicely. It does have a slightly lower margin than our traditional business, but it does provide a nice growth element for us while some of the construction sites are a bit slower.

Oilfield services, a very nice quarter. The surprising thing I guess, typically what we see in the third quarter is a little bit of hesitation from the oilfield service companies, especially in the Gulf of Mexico. It's hurricane season and things tend to slow down a little bit. We did see some of that, but that was offset by some strength on the land-based activities, and again, the acquisitions coming into play there providing not quite half, or actually a little more than half, I should say, of the growth in that segment. But very nice solid growth, both sales and profitability, and oilfield should continue to do well in the quarters ahead.

So all in all, when you put it together, good solid results, certainly areas for improvement, but I think we were pretty happy with the outcome. I'll let Gary give you some of the financial highlights, and then we'll open up for questions.

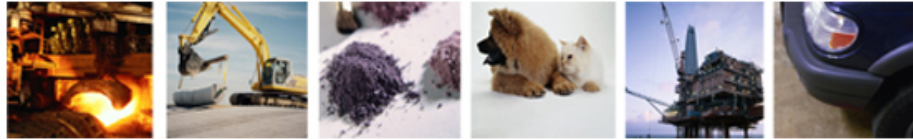
Gary Castagna:

Good morning, everyone. I'll go through the financial overview as well as the financial position and cash flow highlights for the quarter as presented in the press release. Larry already talked about the revenue makeup and the table there that we've introduced. Again, no change in definitions there in terms of what's included in base business. Gross profits for the quarter, the margins at 26.7% versus 26.4, so continuing an expansion of the gross margin, commensurate, of course, with the growth in the two higher margin segments, environmental and oilfield services.

Larry mentioned before, and it is important to understand within the mineral segment, that a significant amount of the increase actually of what we would call the base business category this year for revenues includes freight revenues and we had some exports out of our U.S. operations in this year's quarter, greater exports. We--our terms are on a delivered pricing basis. So the freight related element, the cost of those shipments is embedded into our end price to the customer, and therefore you've got a much higher percentage of that revenue comprised of freight, which, of course, generates a much lower profit margin. And so, that really was when you look at it in a comparison year-over-year the reason that we had a 90-basis-point decline in gross margins. And gross margins in our other key product line and/or geographical areas are fairly comparable to the prior year.

As we mentioned the--as well on the environmental segment, while certainly significant topline growth, the composition of that topline was more weighted in this period for the contracting services business, a business that we really kind of started up a couple of years ago. And while it's operating very well, significant volume projects going on right now. The--that business is structured such that there is generally lower gross margins there. And so, the weighting effect on the entire segment brought down the gross margin by 30 basis points. And as Larry mentioned before, oilfield services continuing on a pretty strong pace. That's from the prior quarters there and gross margins at near 38% are pretty close are our norm.

GS&A, a \$2.5 million increase in the quarter, or 9.6% over the prior year. I'll again mention the sale of the land, just a little more on that. This was a piece of property that was extra property



adjacent to our facility in Cartersville, Georgia, which we acquired I think about three years ago. And it was certainly intended at the time that we could keep this extra land in case we wanted further expansion. I think we went through that whole evaluation and recognized what we had set up in Cartersville right now is more than ample for all AMCOL-based operations there. And so, we were fortunate that we had a valuable property right [near] so that we were able to sell in the quarter.

And by the way, the cash proceeds associated with that sale were \$2.8 million. So excluding the--that particular transaction, the GS&A would have increased by 4.9 million, or 18.8%. Again, quite a bit of the quarter as it's been for the prior two quarters is based--that increase on acquired businesses - \$3.3 million. And we explain further into the segment the composition of the increases there. No particular notable events other than what I mentioned before in the sale of the land.

Operating profits up 58.5% over the prior year. Again, reading through that, excluding the sale of the land, operating profit would have been up 44%. Operating margin would have been 11.6%, so on an apples-to-apples basis, about 140-basis-point improvement over the prior year's operating margin, so that, again, shows the accretive benefits of the oilfield as well as the environmental segment businesses.

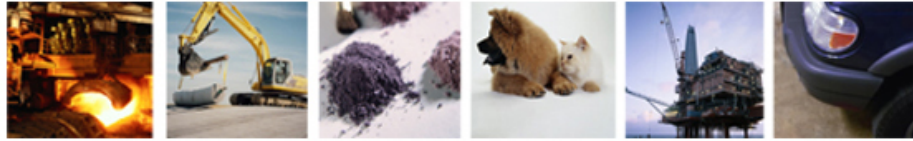
Interest expense, again, pretty much commensurate with our debt levels and the interest rates and current situation. Income taxes we mention here, again this quarter we did recognize a one-time adjustment this--in the third quarter of the year. Of course, when we file our corporate returns here in the U.S. and we analyze tax reserves as well as estimates of the amount of income taxes payable, and that resulted in a favorable adjustment to the income tax expense for the quarter of \$1 million. So excluding that, you result in about a 25% effective tax rate, which is fairly comparable to where we've been for the year.

Joint ventures and affiliates, again, continued strong performance by our partners in Ashapura Minechem in India. Although the comps over the prior year were about a \$0.01 per share improvement, that overall business continues to go quite well. It's powered by the export of bauxite, principally to China.

On the financials, the balance sheet as well as cash flow, debt levels at 164 million, actually a touch down from the second quarter, mainly application of excess cash that we had available. So the debt-to-capitalization actually dropped a little bit sequentially to 33% at the end of the quarter. Working capital levels at 202 million, up from the end of the year, but again, essentially flat. We were 200 million at the end of June. Significant programs under way to continue to moderate working capital growth, certainly commensurate with sales growth. And that resulted in operating cash flow of about \$42 million for the quarter, slightly under net income, which is certainly our goal, our income from continuing operations. Really, the difference there is just the sales of land or the gain on the sale of the land, which is it's backed out of operating cash flow in that calculation.

The cash proceeds are actually reflected in--as a positive adjustment down in investing activities. And investing activities for the year, of course, acquisitions - no activity in the quarter. Capital expenditures increasing according to the number of the programs that we have in place, up to \$37.6 million through September. Again, that's pretty well disbursed around a number of different projects areas globally.

Share repurchases at 6.1 million. No activity in the quarter. Just again, through the first half of the year we were fairly satisfied with the repurchase activity at this point. We didn't mention it in the release, but as a reminder, we have approximately \$9 million remaining in our share repurchase authorization. And dividends we did in our--at our August board meeting, our directors increased the dividend to \$0.16 per share on a quarterly basis. Therefore, we have about a 26% increase in



dividends year-to-date over the prior year.

So those are the big highlights of our operations--financial operations.

Larry Washow:

All right. Darrell, let's open up the call for questions.

Operator

We'll take our first question from Jay Harris with Goldsmith and Harris. Please go ahead, sir.

Jay Harris: Good morning. You guys generated a [expletive] of a quarter.

Larry Washow: Okay, Jay.

Jay Harris: On the minerals business, as the freight costs continue to rise because fuel costs are going up, are we getting at or have we crossed the point where there's a concern over elasticity of demand as you raise prices?

Larry Washow:

The freight cost element generally is a passthrough. So we do have surcharges and fuel elements in there to reflect the increased freight costs. And from the customer's standpoint, it's really--I can't say it's a nonevent that somebody likes the higher prices, but it's certainly not a difficult thing to explain. And typically, the increased costs of the freights are agreed prior to the time that they occur, so it's no surprise when it does happen. So I don't think from the freight side anyway that there's any concern about the pricing. I mean, obviously, nobody likes to pay the higher cost, but given the nature of the materials, it has to be moved around somehow. And both the rail, truck, and ocean guys have pretty substantially increased the rates over the last few years.

Jay Harris:

Well, I guess--is your answer that this is a unique material and the market will pay whatever it needs to pay to get it?

Larry Washow:

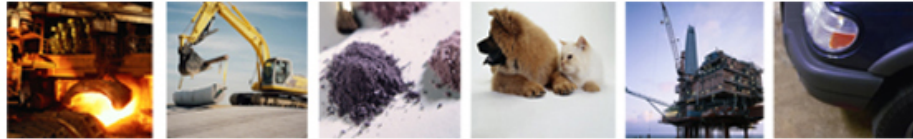
Certainly for materials that we export, the--because obviously we have raw materials - bentonite - available in several other countries, which is also exported. Not every material can be used in every application. So for those applications that require a particular material that's only available from a source or a couple of sources, yes, I think the answer is that they will certainly pay the additional cost.

Jay Harris:

All right. I have a question for Gary. The balance sheet is deleveraged somewhat since the beginning of the year largely because of the growth of earnings, or I should say entirely because of the growth of earnings. Looking forward, do you sense that we'll get into an environment in which the Company will start to generate free cash flow? I guess technically it generated some free cash flow in the first nine months of the year, but your acquisitions consumed that. But is it possible we go through a period where there won't be acquisitions and that the actual level--debt levels get reduced?

Gary Castagna:

Yes. Well, it is possible, no doubt, Jay, as you know, because that really is going to be driven by acquisitions. I think the general premise absent the acquisitions is that indeed the operating cash flow level--again, we're pretty focused to do what we can for the balance sheet management wise to optimize that area. But that will allow us then after looking at capital expenditure programs, and



that's probably the other considerable variable here, and that is as you know, we had a fairly substantial CapEx program over the last couple of years. Last year it was just north of \$40 million. We've indicated that this year we--and obviously, through the third quarter seeing where we are almost \$38 million, certainly being north of 40 to probably 45 million by the end of the year is [prolific]. And we will definitely have some carryover projects going into next year. But we're probably getting to the higher end of that CapEx program. So--.

Jay Harris: Where do you think it pats down looking out over the next two years?

Gary Castagna: CapEx?

Jay Harris: Yes.

Gary Castagna: Well, we never turn away good ideas. I'll say that first of all. So--and our managers are very good at bringing in new ideas about expansion. But if you kind of probably season it out, you probably do drop below 40 million. I would say [net] maintenance oriented CapEx is maybe in the 30s--the low 30-type-million level and perhaps organic base CapEx, where for growth particularly the oilfield services business may bump it up, probably close to the higher 30s. If you--absent any what I would say significant expansion programs. So--.

Jay Harris: \$[60] million depreciation schedule..

Gary Castagna: Yes. So indeed, you're going to have free cash flow generation from that perspective given where we see the sort of normalized CapEx, and if you believe that we can convert basically the net income down to operating cash flow.

Jay Harris: All right. And then, finally, over the years, your fourth quarter revenues have always been lower than your third quarter revenues. This year--last year the decline was small relative to prior years. What are the elements that are in this decline in consecutive quarterly revenues?

Larry Washow: The biggest element, Jay, is the environmental business and the seasonality primarily in the ability to install the materials is really what's reflected in the decline in the fourth quarter. That will occur again. The oilfield service tends not be quite as cyclical, obviously. They pump oil 24/7 365 days. So that business is fairly stable. The mineral is more impacted by the holidays than anything else. And with the geographic diversity, the holidays are somewhat different in Asia obviously than they are in the U.S. So that's enumerated a little bit. But even on the mineral side you would expect a bit of a decline again in Q4.

So that pattern will remain the same. The oilfield may help it as it did last year in not quite declining as much as it normally does.

Jay Harris: Thank you.

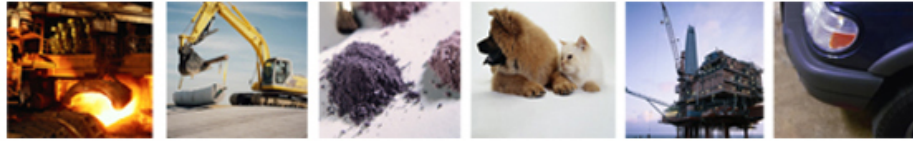
Larry Washow: Thank you.

Operator:

And we'll take our next question from Al Kaschalk with Wedbush Morgan. Please go ahead.

Al Kaschalk: Good morning, guys

Larry Washow: Hi, Al.



AI Kaschalk: Just to follow up on the previous question. Are you seeing any seasonal change in the business, because as you look back, you were weak--I guess we know that Q4 is generally weaker than your monster quarters in Q2 and Q3. I wonder if you could comment on that.

Larry Washow: Yes, I would expect the same pattern again this year, AI. It's just the nature of that environmental business and the holidays. The fourth quarter will definitely be down from the third quarter. But you do have the benefit of that oilfield service business, which is a little bigger component now than it used to be. So that's, again, a modest plus to probably balance it out a little bit. But no question that the fourth quarter is softer than third quarter.

AI Kaschalk: The margins in oilfield services were much better than I think probably some expectations, or at least ours. How did that compare relative to your expectations in Q3 given--going into Q3, given that we did not have any weather disruptions?

Larry Washow: I think we were about at where we thought we would be. Maybe there's--the nature of the business being a project driven business, some projects are more profitable than others. But in general, the sort of range we would expect that business to perform in.

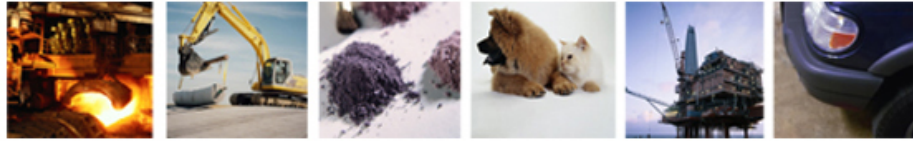
Gary Castagna: Yes. I think just to supplement that, too, AI, when you kind of look at--I think where your question--more focusing on the operating margin line. If you go--you went through the first two quarters of the year on the gross margin and we had a fairly modest gross margin in the first quarter offset by a pretty high performing second quarter, and the gross margin here in the third quarter near 38% is about the average of where we were. And I--there's always pluses and minuses as we've mentioned before because of product mix in that business, third party related sales.

But actually what generated the--perhaps the uptick on a sequential basis there for the operating margin was just basically flat SG&A. And that is probably an indication that, again, these acquisitions are getting into the structure now. Quite a bit of that line, as you might imagine, is tied up in personnel related expenses. So we're kind of now into a structure zone there in terms of the SG&A base in that segment that is more in line with maybe where we're going forward. So the first couple quarters of the year, kind of ramping up, getting those things sorted out. And they were very good at basically controlling SG&A costs, and that obviously levered the operating margin.

AI Kaschalk: With the acquisitions now sort of getting into the numbers, you made comments about SG&A probably--I don't know if it's steady state or relatively generally lower than the growth in the topline on a relative basis. Are there places where you need to invest either people or in people or cost going forward to help leverage the growth opportunities you see as a result of the acquisitions?

Larry Washow: In terms of the acquisitions, I don't know if there's a lot of additional overhead cost. I think in terms of the ongoing business in places like China we've got two new plants there that are just really getting going. There will be [indiscernible] overhead associated with that. There will be more as we go and expand that business. The same scenario from an acquisition standpoint in Turkey as we really shore up the sales. And as--inside of that business I think we'll see some expansion there. But that all should be reflected and end up producing better revenue, better margins over time. So the little ups and downs that will occur I don't think will have a tremendous impact overall, but we will invest additional overhead where we need to, to make sure that we're maximizing the new operations as well as the acquisition.

AI Kaschalk: Okay, and then finally, I guess maybe disappointing would be--I don't know the nice word, but maybe describes what we're seeing on the mineral side of the business, in particular metal casting. How did the North American market vary relative to outside of North America in



terms of either strength or weakness and where there may be concerns you have to adjust?

Larry Washow: Well, the North American market obviously slowed down pretty dramatically over the last couple years. The build in the cars are down. I think Cat announced earnings today and they were down a touch based on slower U.S. sales and I think we're going to continue to see that for at least the foreseeable future. Fortunately, China is not surprisingly very strong, our position in China far smaller than our U.S. position, so it's not a direct offset. But the rate in growth in China is pretty dramatic and certainly will go a ways to offsetting some of the softness in the U.S. markets.

So we're obviously looking at the whole structure in the U.S. and we're sized for the business the way it is today and the way I think it's going to be at least for a while. We don't anticipate any future changes, but obviously we always are tweaking to try and make sure we're optimizing our structure and set up to serve the business that's here.

Al Kaschalk: Do you have to make to make any further investments in Asia as it relates to the metal casting business?

Larry Washow: More capital related as we expand our capacity in things for sure. But those will be fairly typical from what you've seen in the past. I don't expect any extraordinarily unusual additional investments.

Al Kaschalk: Great, thank you.

Larry Washow: Thank you.

Operator: And we'll take our next question from [Todd Vinsell] with Davenport. Please go ahead.

Todd Vinsell: Hey guys, nice quarter.

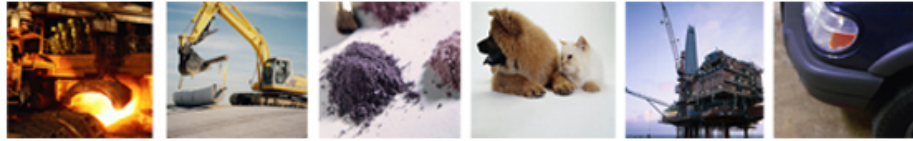
Larry Washow: Hi. Todd.

Todd Vinsell: Just to drill down a little bit. A lot of my questions have been answered, but on the minerals side, Gary I know from our conversations you guys had been looking I guess at higher mining costs last quarter. Can you talk about how that's proceeded this quarter?

Gary Castagna: Mining cost, a lot of that is really related to the cost of energy. And although--where the retail prices have been fairly flat, in the last several weeks the diesel prices are certainly up a lot from what they were last year. So we are seeing the impact of that. We're also--and it varies a little bit year by year in terms of the nature of the areas where we're mining and the length of the haul of material we [get] back for the operations. This year we certainly had some longer haul than we normally do. And some of that will continue, and the volumes are up quite a bit from what they were a few years ago. So we're bringing material in from a broader base. So the mining cost uptick I think is pretty well built in. I would not expect that to increase incrementally gain over the next several quarters. I think the costs that are in there now should be fairly good going forward.

Todd Vinsell: Okay. On the domestic metal casting side, could you just give a little more color? Maybe--clearly that's still soft, but directionally, is it leveled out, is it a little bit worse than it was?

Larry Washow: It's--yes, it sort of leveled out, I think, Todd, from our perspective. I mean, if you look you'll see month-to-month variability. Certainly, again, in the automotives are--sometimes they'll shut down a couple plants for a month or a few weeks and that has an impact. But in



general, it's kind of been--the build rates anyway--or the [sale] rate, I should say, kind of knocking around that 16 million unit mark and down from over 17 over the last couple of years, but seems to be fairly stable at that level.

One other thing, it's not a huge business, but it does have a bit of an impact. We certainly see castings in the residential housing sector, whether that's bathtubs or pipes going into houses and things like that. So obviously that slowed down--no where nearly the impact of automotive on metal casting. But actually, it does show up as far as the slowdown and I think that's been a factor as well. How low that goes, I don't know. And again, it won't have anywhere near the impact automotive does and most of that impact I think has already been realized, but that is another factor when we look for things to turn around. I think it's going to have to be a combination of the overall economy, the people who want cars and trucks and heavy trucks and equipment as well as the residential areas.

Todd Vinsell: Got it. And you guys, you had mentioned Asia Pacific. I assume we're talking largely about the metal casting business there. How is the metal casting business sort of looking? How's your outlook for that--your participation in that?

Larry Washow: Very, very positive. One of our new plants in China is really bringing a specialty material using bentonite into the foundry market in China for the first time. And early days, but very interested customers, positive feedback. We have a similar operation we're building now in Thailand that will be complete by year-end. Very strong interest from customers. So as those turn into real revenue generators in sales and the demand is more than ample to take that into account, I think we'll see the benefit of that coming through in both the sales and the margin line because they tend to be higher margin product that we're bringing in.

Todd Vinsell: Do you still feel pretty good about the outlook for just taking share as that market matures?

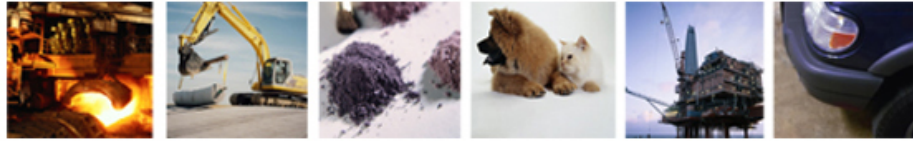
Larry Washow: I think the maturity is a ways away. I think the growth is still pretty amazing. So I'm not at this point worried about taking share We'll just--if we get our fair percentage of the growth, [we'll be in] good shape for a long time.

Todd Vinsell: Got it. And on the pet product side, it looked like the numbers were pretty good there. I know you've been sort of focusing on trying to shift your product mix a little bit. Is that proceeding?

Larry Washow: It is. We're certainly trying to make sure we're in the segment of pet products that will maximize the profitability. And pretty good results so far. We've got some work to do yet. But our hope is as we get that kind of lined up well over the next couple months, that that will be a better contributor throughout the cat litter season, which really gets into full force here later on in the fall.

Todd Vinsell: Okay. Last question. Thinking about the JVs, I know you guys have been spending a fair amount of time I guess overseas in India. And I'm just wondering if there is any sort of strategic activity on the horizon kind of around the Ashapura shares, the JV, if there's any way to sort of maximize your exposure to the bentonite there. If you can talk about anything that's going on around that.

Larry Washow: Yes, we're certainly [approaching] the Ashapura on the bentonite side and a couple of our bentonite related JVs for the specialty products - our 50/50 JVs as opposed to the 20-odd percent we have in the [indiscernible] as a whole. And we're continuing to look to try to expand in those areas where we share a bigger percentage of the ultimate value. But obviously,



our main interest is bentonite and these days for them that's a much smaller part of their business. So we certainly look to work with them to try to maximize the opportunities in the world of bentonite however we can do that together.

Todd Vinsell: Do you think as we look down the--down into the future the next say couple of years we might see some sort of transaction or arrangement that would serve to maximize that, or do you think it will be more evolutionary?

Larry Washow: It's probably evolutionary, but it's hard to know. I mean, they're--they've got lots of activities going in a whole range of minerals across India. The company's doing very well. So from their standpoint, there is certainly not a pressing need to make a lot of changes, so it's hard to know. But we certainly worked well with them over the last many years and expect that to continue. So in the years ahead I think we'll figure out ways to work together to get a better value for both of us out of the bentonite.

Todd Vinsell: Great, thanks a lot

Larry Washow: Thank you.

Operator: (Operator Instructions) And we'll take our next question from Rich Wesolowski from Sidoti and Company. Please go ahead.

Rich Wesolowski: Thanks. Good morning

Larry Washow: Rich.

Rich Wesolowski: Larry, you mentioned contracting services a couple of times within the context of the environment discussion. I thought that was a much smaller slice of the segment. With the growth there from higher profitability, project close outs, incentives, something like that, or is the growth so much that it's now becoming a bigger slice than I think it is?

Larry Washow: It's actually a reasonable slice of the U.S. business. And it's grown a lot since--we got in there and we bought that a few years ago.

Gary Castagna: Yes. '05.

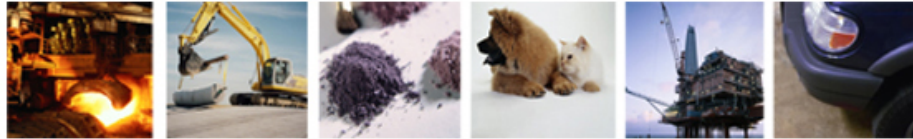
Larry Washow: In '05. It was a very small business. Kind of a one-man type thing. And we put some resources into it and really I think provided some of the backup in terms of materials and financing to enable that business to grow and it's certainly not a huge percentage of the environmental business, but it's--.

Rich Wesolowski: --Is it more than 10%?

Gary Castagna: It's probably in that range, Rich. And now, I'd say is a segment as a whole. Really, it--to have the effect on the margins--and really the growth is the key issue--is that it comprised quite a bit of the growth as well.

Rich Wesolowski: Okay. You mentioned in the minerals segment the freight passthrough. I know that waters down the margin, but are you actually recouping the costs there?

Larry Washow: We are. I mean, it's--I can't say it's 100% true, but in 99%-plus of the cases we recapture the freight. Occasionally, if a change comes in and we haven't caught it on the next



invoice we might miss a bit. But in general, it's pretty much just passed along. Yes.

Rich Wesolowski: Okay. How much of the oilfield [substrates] of the business comes from Brazil or West Africa, any other region besides the Gulf?

Larry Washow: The Gulf is the biggest [indiscernible] right now for sure. I mean, in Africa, we've been having activity there for a couple of years, but it's still fairly small. Aberdeen, Scotland and Norway, again, more activity than Africa but not huge. We've been knocking on doors in Brazil in Asia and Malaysia, things like that. But right now, the Gulf is really the lion's share of the business.

Gary Castagna: Yes. I think as of last quarter, Rich, in aggregate, the international markets represented about 15% or so of the segment revenue.

Rich Wesolowski: Okay. Would you say the prospects for growth are still strong in the Gulf or would you have to expand to maintain the type of growth that we've seen the last year or two?

Larry Washow: We've had a strong effort to expand internationally. We've got a good team of people out there to do that. There's some opportunities in the Gulf for sure, but I think to maintain this type of growth rate we definitely have to get more international exposure.

Rich Wesolowski: Okay. It looks like the operating margin from the acquisitions was a good deal lower than what we saw in the first half. Any meaningful changes in the business there or was that just bumpy as it is?

Gary Castagna: Actually, that's a good observation, Rich. The--a couple of the businesses, one in particular in the minerals areas, where we're still kind of firming up the purchasing accounting. So there were a couple of adjustments in that regard that--in the minerals segment that increased the SG&A a little bit. And also, in the oilfield area there was a bit of a slowdown I think in one of the particular businesses that we had in there - the rental equipment business that also had pretty--very high margins and it still does. But the--that contribution to the acquisitions was probably less than what we'd seen in the first half of the year. But--so I think that you probably should see it more resume where we were through June, which was in the higher teens probably.

Larry Washow: The oilfield one really was related to the concern about the hurricanes. The guys just kind of hunkered down for a couple of months, so our business dropped off there. But it's a good selling business and it will be back at normal levels. It is already as we get into Q4.

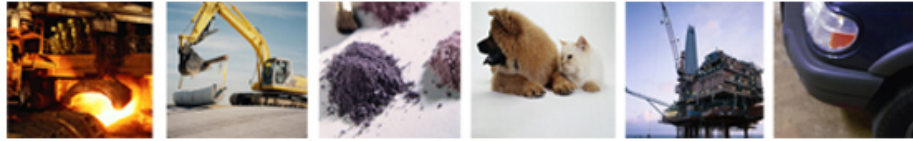
Gary Castagna: Yes

Larry Washow: So definitely [correct] third quarter. We did see an impact on some of the acquisitions in terms of the margin.

Gary Castagna: Yes. I should add on that because I was going to mention before just because of these acquisitions happening at all different times over the last year, as of the next--the year-end reporting, we'll have a couple of these businesses actually accounted for as base business organic growth just because of reaching their one-year mark.

Rich Wesolowski: Is the rental--in the oilfield, is the rental business at all a precursor or an indication for the rest of your service [market] or is demand there concurrent with everything else you do?

Larry Washow: The [niche] of the products are really different, so it's kind of hard to say that



that's a precursor. I think in this case what we learned is that that has--the hurricane season has a bigger impact on that business than it does in some of the other businesses. But good solid business and I don't think it's predictive of anything changing really.

Rich Wesolowski: Okay. And finally, when [will] the growth in the SG&A expense from the acquisitions, be it actually adding people or the amortization, fall off?

Gary Castagna: I think as we kind of mentioned with oilfield before, Rich, is an example where the SG&A for the quarter totaled for the segment around 4.5 million or so. And that pretty well is sort of where we've leveled it out there. And I think if you look sequentially, other than what I mentioned in the minerals segment there before, in terms of some adjustment due to, if you will, the accounting aspects to it, I don't think we've got a lot more in terms of upside of the let's say annualized SG&A increase for these acquisitions in terms of the SG&A line. I think it was a little over \$3 million or so year-to-date. And that annualized rate, as far as I'm concerned, is probably a fairly indicative level at this point.

Larry Washow: The amortizations typically go on for several years.

Gary Castagna: Yes.

Larry Washow: So you're not going to see that fall off anytime soon.

Rich Wesolowski: But I just mean the gain in the SG&A.

Gary Castagna: [Inaudible]. But as Larry said, I mean, let's say for instance, Turkey--a very strategic market--the region and all--getting a base there, indeed we--in order to expand in these regions we definitely will have from time to time more ramp up in terms of personnel to support those emerging market areas. But in general, the annualized rate that we're at right now is probably a good indicative rate.

Rich Wesolowski: Okay, thanks a lot.

Larry Washow: Thank you.

Operator: And we have no further questions. I would like to turn it back over to management for any additional or closing remarks.

Larry Washow: Okay, Darrell. Thank you very much. Appreciate your participation in the call this quarter and look forward to talking with you after the first of the year. Thank you.

Operator: Once again, ladies and gentlemen, that will conclude today's conference. We thank you for your participation. You may now disconnect.