

Q3 Conference Call 2008

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October 17, 2008 10:00 a.m., CST

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

A replay of this call will be available starting at 12:30 p.m. Central time today. You may access the replay by dialing 888-203-1112 and referencing passcode 9803452.

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

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

Larry Washow: Thank you and good morning everybody. Welcome to our third quarter earnings call. Lots of information presented in the press release, so I will hit a couple of the highlights on the business and Don will come back around on some of the key points on financials and we'll open it up for questions.

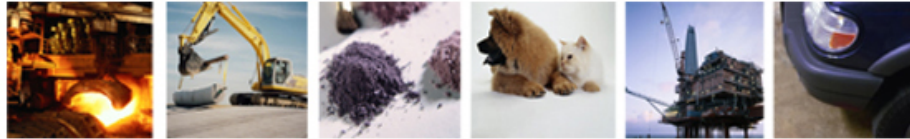
You've seen the numbers by now, very good revenue growth, 24 percent quarter-over-quarter, which we're enthused about. Certainly that's where all the success – potential success starts, so continued revenue growth is a very positive impact I think.

The key for us is to deliver the margins that revenue should provide and we did see a little bit of the benefit of that but certainly not what we expect to see in the quarters ahead. Two big factors on the bottom line earnings in the quarter, one of them that we mentioned the benefit we had last year of the sale of some land at one of operations was six cents a share. And the negative, this quarter, was the impact of the hurricanes and the weather on our oil field service business.

Let's talk about oilfield, a little bit. Certainly, in Q2 of this year that was a very strong performer, excellent margins and nice growth. We're looking at Q3 and certainly, saw some growth year-over-year but if you look at the sequential quarters, pretty modest growth, especially in light of the fact that we did an acquisition mid-quarter, last quarter and we would expect to really see a greater benefit from that. But the hurricanes really took much of the Gulf of Mexico out of operation for several weeks in September, actually, towards the end of August and on into September.

And most of the real profitable business is in the offshore area, in the Gulf itself. We certainly kept busy on land with some work and that's good. The international side was OK but obviously nowhere enough volume to offset the loss of the activity in the Gulf itself, so difficult to say exactly the impact of that.

We estimate about three cents a share, probably that's conservative. Could be a bit more than that but



certainly that had an impact and even today, the Gulf is not fully back on track. It's slowly coming back.

One of the benefits that we actually do see from the business side is as the Gulf comes back into operation there's lots of work on the pipelines to make sure they're sealed and cleaned and if they've been broken, repaired. And a lot of that ends up being good business for us. So, looking ahead, there is a benefit to the hurricane but looking back, certainly, it was a negative impact for us, last quarter.

Mineral segment, again, pretty nice growth there; we're looking at good sales growth and continue slow steady margin improvement. And we talked about that the last few quarters and again, the 60-basis point improvement in the sequential quarters on the gross margins and a long way to go for sure, but we're certainly starting to see some of the benefit of the pricing come through.

And obviously, everybody's watched the oil and the energy crisis come down. That should certainly be a benefit for us, showing up even greater in Q4 as well. So that trend will definitely continue.

CETCO, environmental sales growth, 13 percent; a bit lower-rated growth in Q3 than the rest of the year and kind of a function of the basic product portfolio and the mix around the world; normalizing the operating profit that is taking out the benefit of last year; good growth and operating profit, this year as well. We did see a slight drop in gross margin. Again, as we've talked in the past, mostly related to the installation business, which is not quite as profitable as our products themselves.

So with that as kind of a business overview, I'll let Don hit some of the key points in financials.

Don Pearson: Thanks, Larry. One point I want to make on our minerals group, as Larry mentioned, regarding the energy costs, Q3 still had the burden of higher energy costs, particularly, on the diesel side.

So going forward, we are putting a program in place to address energy costs, including, diesel, natural gas and electricity via hedging programs and some forward purchases. So, the intent is to get a better handle on and control these costs and avoid the surprises.

Moving on to GS&A; as Larry mentioned, we had a \$2.4 million gain of land, last year. If you exclude that GS&A increase 18 percent, which, given our growth in revenues is not bad. But what I do want to point out is the rate of increase has declined compared to the prior quarter.

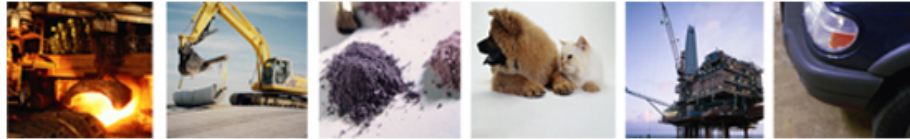
Last year, GS&A as a percentage of sales, was 15 percent compared to 14.3 percent this year. Also point out in the past quarters; we've talked about increases in our benefit costs in our corporate segment. We've put measures in place to contain the growth in these costs in our benefit plans so in 2009, we expect to see lower growth in these areas, while we expect to keep our benefits competitive with the marketplace.

Moving to other, net expense; again, the majority of the expenses in this line item is the foreign currency impact. In Q3, we experienced a sharp increase in the value of the dollar against our other foreign currencies, so that had a negative impact on us. So, again, the majority of that \$1.8 million, in this quarter, probably about \$1.6, is all foreign currency, which is probably about a four cent impact.

Similar to the energy costs, we're putting a currency risk management programs in place. And I expect that by 2009, we should have the majority of our foreign currency exposures covered with some type of derivative or hedge in place.

Moving to income taxes; there's really one key point I want to point out. The effective tax rate in the prior year quarter, Q3, was low at 25 percent when you exclude the benefit of the contingency reserve. We had higher than anticipated profits in Q4 of last year, meaning we had to take a high effective tax rate in Q4 last year of 34 percent.

So what's important to note is in Q3, when you compare year-to-year that actually works against us, so looking forward, to this year, if we have an effective tax rate in the range that we're expecting of about 27



percent, that should work out as a favorable comparison in Q4.

Moving to the balance sheet and cash flow; first, I want to talk briefly about cash. Our cash balance of about 34 million is higher than we typically run, which is around 25 million. That's really a function of some timing of certain vendor payments that we have beginning in the quarter and it's just more efficient to have the cash there and pay it rather than get into borrowings, which we do in tranches.

What we'll generally shoot for is a cash balance of about \$25 million. Our debt balance was about \$288 million, at the end of the quarter. I want to point out that \$20 million of that is debt for our new corporate headquarters. We're moving in November.

When we move into this building, this is treated as a sales lease-back, so we'll effectively remove the asset and the debt from our books. We also have – I'll point out the availability on our line of credit, right now, is about \$57 million, so when we take that and our cash balance, we have liquidity of about \$90 million right now.

Looking at the cash flow statement, the largest use of cash in the nine-month period was due to working capital increases of about \$86 million. This is certainly reflective of our sales growth and to somewhat, an extent of seasonality, where we typically build working capital to the highest level in Q3, and we'll generally see a reduction in Q4.

So while our working capital is generally, in line with prior years, this is an area we would like to see some improvement, so we are monitoring our receivable and our inventories. And look to put programs in place to contain and ideally, improve working capital levels here.

Looking at capital spending for the nine months at about \$30 million that's a bit lower than the \$36 million for the nine months in '07; that's primarily due to lower spending of maintenance items in 2008 and 2007 had some higher spending on a – particularly, on a completion of a plant in China.

Just want to briefly acknowledge the financial crisis, right now and note that AMCOL has a new credit facility that we put in place, back in Q2 of \$225 million. And it goes, I believe, through 2013. Relative to market pricing, right now, our terms are very favorable, so we're pretty comfortable in saying that we've got adequate financing in place to fund operations over the foreseeable future. That said we're continually looking at our capital structure, trying to optimize it to ensure we've got capital in place to finance our growth.

And one last point I'll make is our 2009 earnings calendar, we're going to adjust the date of earnings releases from the third Friday of the month, following a quarter, to the fourth Friday of the month following the quarter. And we'll certainly send out invitations with the dates as is our current practice.

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

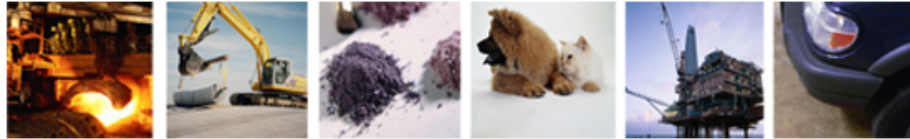
Larry Washow: OK, Don, thank you and Paul, why don't we go ahead and open up for questions now.

Operator: Yes, sir. If you'd like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again that was star and then one to ask a question.

We'll take our first question from Al Kaschalk with Wedbush Morgan.

Al Kaschalk: Good morning, guys.

Larry Washow: Morning, Al.



Al Kaschalk: Larry, I wanted to start on sort of the more macro side here, on the volume of activity; more change you may have seen relative to your customer base, across each of the segments, as you look out over the next 12 to 18 months. And specifically, if you can comment on whether you're seeing any slowdown in that activity or maybe just some hesitations, as we look out.

Larry Washow: Sure. I think the areas that are a bit concerning, Al, won't surprise you at all. I mean metal casting certainly is a big business for us. A fair portion of metal casted products end up in automotive applications. And there's no question that the automotive market is down.

And we're seeing that particularly, in the U.S. but even in some of the international operations, of a bit of a slowdown. So, metalcasting we expect to and it's not a new trend, it's been ongoing all year, we expect that to continue to be soft, I think, certainly for the foreseeable future, well into 2009.

The offset to that is some of the heavy equipment guys, you know the earthmoving and farm equipment have been fairly strong and that continues to be the case as well. Now, with the overall commodity slowdown whether some of the major corporations with earthmoving equipment are ultimately impacted by that time will tell but so far that business has been pretty steady.

Looking at environmental, the softness we see there is, primarily, in the building materials area where commercial buildings, again, certainly we're benefiting now from projects that were started a year or two years ago that are going on. But the rate of that activity going forward certainly looks like its slowing down, at least, in the U.S. and some of the Western European economies.

We don't see similar slowdowns in China. We don't see similar slowdowns Eastern Europe, so there certainly will be somewhat of an offset but in terms of the kind of the Western economic growth areas that would be one that would be a concern. Some of the offset there, too, government buildings; infrastructure projects, all of those also use our environmental materials, so we do expect a bit of an offset there to ameliorate some of that softness but no question, there'll be a bit of softness there.

Oilfield Services; the breadth and the nature of what we do we look for that continue to grow. There's obviously threshold pricing. If natural gas gets super cheap that reduces the land activity. If oil pricing got down to incredibly low levels that might have an impact but most of these projects tend to be much longer-term big projects in the oil patch, so the oil drilling activity, especially the offshore activity tends to go on as we look at multiyear horizons, but the onshore activity and the nature gas could be impacted.

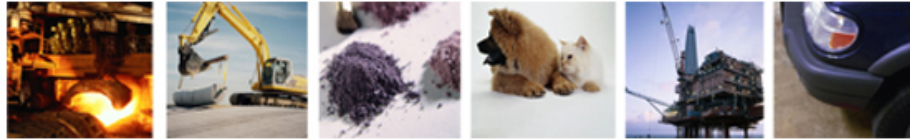
So, I guess overall if I look at everything, we're sort of cautiously optimistic. We're in a broad range of markets and a broad range of geographies. There certainly is a general softness economically that is well publicized around the world. You know in our markets, I think, we're fairly comfortable that we're positioned about as good as anybody can be to continue to grow in spite of those areas that will be slow.

Al Kaschalk: Would it be fair to say that building materials is the one where you see the rate of growth slowing the fastest or would that be mining or which one if none of those?

Larry Washow: Probably – the rate of growth in building materials has slowed some. It's not unlike Lining Tech, though, I think they're both fairly similar. And part of the benefit we have there is in our building materials group.

We've actually broadened our product portfolio pretty substantially over the last couple of years, so we're bringing more things to the market. And even on the same projects we'll end up having more dollars coming our way just because of the nature of the range of products we have now versus years ago. So we have ongoing activities, obviously, to help offset some of the decline that would naturally occur.

Al Kaschalk: Are you – have you seen any of these turn negative in terms of volume? If currency was flat



and pricing was flat or you know no change, what's ...

Larry Washow: Generally, business is kind of steady as she goes. What we're not seeing are massive new condominium projects in Florida and things like that. Certainly, it stopped, but the ongoing you know there's still work going on; architects are busy.

They're looking at China. They're looking at India. Eastern Europe has got a tremendous amount of activity. Poland is doing very well. Ireland is extremely slow. Spain is very slow. The U.K. even is finally slowing down a touch.

So it's kind of an offset. It's really hard to say that it's going to continue a decline. We think certainly a softening of the rate of growth is probably a realistic way to describe it but it's very dependent, obviously, on the whole economic – broader economic cycle and credit really drives so much of the business that we're in, in terms of construction that that'll ultimately be a far greater determinant, I think, of how fast or slow the business grows.

AI Kaschalk: If I may turn, just real quick, to automotive metalcasting in particular. Would industry consolidation of the Big Three and on some of the Asian players, how would that impact your foundry business?

Larry Washow: Most of the major customers we have sell about – I mean they're broad-based –they sell to the major foundries. Some of the automotive guys still do a little bit of their own casting, but over the last several years, most of that has been outsourced to actually more efficient new foundries and those guys tend to supply a pretty broad range of the automotive companies.

So I don't think it would impact our business at all; if anything – if you end up with stronger automotive companies that has to be a help.

AI Kaschalk: OK. If we could switch over to the joint venture line, I was wondering if you could comment, maybe, on the broader sense of that growth component of your story. But it seems, based on – over the last three years here that we've sort of hit a ceiling or at least flat-lined on a run rate per quarter.

And I know there's a seasonality with Q1 being a little bit softer than most of the other quarters, but could you comment or update us on business activities there? And your thoughts on whether that stays at these levels or there's a next step up, at some point.

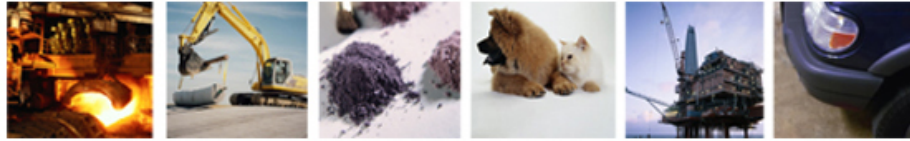
Larry Washow: Yes. The biggest component of the joint ventures, obviously, is our Indian joint venture. And a large part of the growth over the last couple years in that joint venture has been the entry into the bauxite business.

That business has been very strong for our partner, Ashapura. Several months ago, the Indian government basically halted the export of bauxite with the idea that they wanted to create more value within the country; things that we see in China and South Africa, as well. That has certainly impacted Ashapura.

The expectation is that there will be a resolution to that issue sometime before year-end and they will be able to resume the bauxite shipments. But the softness and the flatness reflects the fact that that business is not – it's not there right now. So, if that does come back that certainly would be a positive impact.

The other joint ventures are doing fine but on a relative basis they're pretty modest. So even though they're improving and they are improving pretty much across the board, it just doesn't move the needle.

AI Kaschalk: Thank you. I'll hop back in queue.



Larry Washow: Thanks.

Operator: If you find that your question has already been answered, you may remove yourself from the queue by pressing the pound key. Next, we'll take a question from Rich Wesolowski with Sidoti & Company.

Rich Wesolowski: Thanks, good morning.

Larry Washow: Morning, Rich.

Rich Wesolowski: Larry, it was great to see the \$9 million or whatever it was, in that area, pricing gain in the mineral segment but given that gain, I would've expected to see a higher minerals margin in a quarter where the natural gas prices and the diesel prices came way down. You mentioned in your prepared remarks, I was little unclear, do those latter items take a little longer to filter through or is there something else that I'm missing?

Larry Washow: No, they really do. That's a key factor, Rich that we probably should clarify it a bit more. For example, we move a lot of material between our plants, process material, put it on the railroads.

The railroads and their fuel surcharges, they run probably a 60-day lag time, so we really in Q3 saw hardly any benefit of the declining cost in terms of the rail rates. The diesel prices, they do tend to move a little bit quicker but a lot of the diesel we use is for mining material, so the cost of that already mined material that's in inventory, obviously that doesn't change. The new material coming in will certainly help that.

So I think what you'll see is in Q4 a greater impact of the energy components that are coming down than we saw in Q3. Because it really was sort of mid-Q3 – towards the end that some of that started to come through, so there wasn't – we didn't really get a big benefit on the cost side.

So the benefit we did see was more on the pricing and again, I think that's going to continue to improve as well but we should see a bigger step forward in Q4.

Rich Wesolowski: So even if it was apples-to-apples pricing in December versus September, you would see a kick to the margin from the energy and you expect to see better pricing, as well.

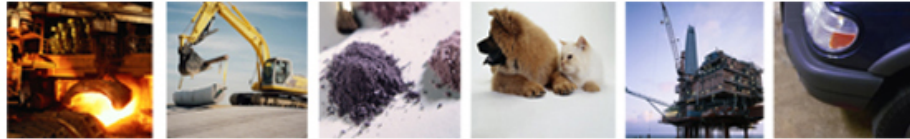
Larry Washow: That's right.

Rich Wesolowski: OK. Thanks for the pretty detailed outlook on your end markets. Has that outlook changed in any of them, specifically, within the last month? There's a lot of the things that we had spoke about were kind of themes that have played out all year.

Larry Washow: ((inaudible)). The specifics probably haven't changed that much, Rich. I think it's probably a bit more consternation on the automotive business only because now with the credit markets as tight as they are, can people get money to buy cars? With the economy slowing down is the mindset going to be, well, I better hold off on buying a car?

So that's one area that it's probably a bit more concerning, in the U.S. than it has been in the previous quarters. And we're seeing that in the build numbers really coming down. You know when you figure it wasn't too many years ago we had 17 plus million units built in the U.S. and the numbers now, I think, are trending down under 13 million, so that's a significant drop.

If that continues to drop, you know at the kind of rate it has over the last couple of quarters, that would certainly be a concern.



Rich Wesolowski: OK and finally, the overhead cost containment was a good deal better this quarter than it has been in the recent past, could you go through, maybe, a little detail why was that so? And whether maybe the economic changes that you've been talking about have prompted you to reconsider what portion of these costs are really necessary as you head into '09?

Larry Washow: I don't know that we really changed our approach at all. I think it's – we added a lot of overhead costs in anticipation of some of the growth and the you know the programs that were – are going forward, including, IT and things like that as we put in a global ERP system. As those things gradually rollout and get installed, around the world and the people that we brought in to support that are here and the business continues to grow you know the relative impact then I think starts to show up as we saw it now.

And that's with the lower overall overhead ratio to sales and that should continue. We're well-positioned. We've got the major programs that Don talked about are well underway and so we really expect, if anything, to see more benefit from them going forward.

The costs are pretty well – they're in there, so it doesn't mean the costs are going to go away but they should be fairly stable.

Rich Wesolowski: Great. Thanks a lot.

Larry Washow: Thank you.

Operator: Our next question comes from Jay Harris with Goldsmith & Harris.

Jay Harris: Good morning, guys. Don Pearson: Good morning, Jay.

Larry Washow: Morning.

Jay Harris: Don, let's turn to the balance sheet for a moment. Can you share with us where you expect the debt levels to be at the end of the year?

Don Pearson: I would expect, Jay that they would probably be where we're at or probably down. You know we have the pending South African deal. That will probably run \$30 million net or so and then, probably, \$10 million in CapEx.

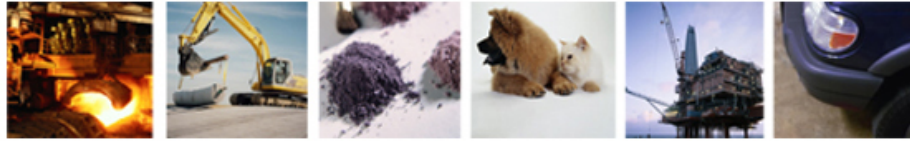
But we'll probably also have a substantial reduction in our receivables. So you know all things considered, I'd expect it to be where we're at or maybe a little bit down.

Jay Harris: And what is your unused line, at this point in time?

Don Pearson: It's \$57 million.

Jay Harris: All right. So, what kind of – I presume the receivables were up because you did a lot of business in September. The working capital, if you take receivables, inventories, less payables was \$285 million, what kind of targets are you establishing to reduce that?

Don Pearson: We typically look at DSO and we look at that at the three segments, so we're looking at putting some targets to increase those by at least several points, if not more. Our Oilfield Service group, for example, is running much higher than we'd like it to. It's a function of some turnover down there and some systems and the hurricane and things like that so expect substantial improvement in the oilfield collections



for sure.

Minerals are actually running pretty well, across the global network. Environmental, we've got some room to improve, so you know I'd say minimum five point improvement, probably, across the board on DSO is probably a starting point.

On the inventory side, I think that's really a function of our supply chain and how we manage our supply chain. So we've recently hired a supply chain director. While we don't have an ERP system put in place you know we're building it out and we should have that place in 2010 but that's not an excuse to not have good visibility and good metrics on the supply chain.

So we're working on understanding where our inventory is and why it is at the levels that it's at so that we can improve it. So I'm still studying it a bit but I'd say by you know the next quarter or so, should have a better understanding of some targets. But the intention is to have it come down in relative terms.

Jay Harris: Is the South African deal likely to close soon?

Larry Washow: Yes, we're really waiting for the final regulatory approvals, Jay. And it's South Africa so nothing happens quite as planned but we expect that over the next several weeks to close.

Jay Harris: All right, so this'll be done – we'll see a press release between now and the end of the year kind of thing.

Larry Washow: Yes, as soon as it's wrapped up we'll definitely announce it.

Jay Harris: All right. In terms of the value-added in that business, is there a significant portion that is done outside of South Africa?

Larry Washow: In terms of the chrome business, no. The finished product – actually, its all produced in South Africa and it is shipped as a finished product, so that's one of the things really on in the process. We met with the regulators in South Africa to make sure that it was a beneficiated product, as they call it there and it is.

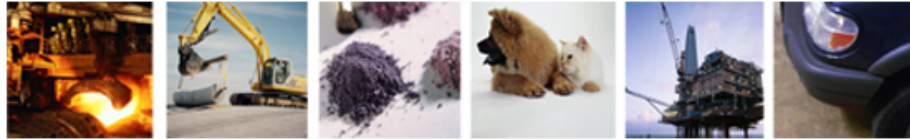
Jay Harris: I see that the newspapers have been carrying stories about a shift in the politics in South Africa to more populace leaders. Do you have any concern about tax increases and other earnings impairment issues that might arise over the next couple of years?

Larry Washow: Yes, it's always – in a country like South Africa, its always a little bit interesting, I guess, is the word to see what's going to happen. I don't worry as much about earnings impairment as perhaps lack of getting the full potential earnings that we might if things are handled well.

South Africa really has been dependent and building success on their mineral wealth and I'm hoping and the people we talk to down there indicate that obviously, it's a very different type of leader coming in now but recognizing that you have to have the economic prosperity to support the groups that are looking to move up.

One of the changes that occurred, over the last couple years, even before the government change was they've had black empowerment groups as part of every mineral investment for several years. But what they've done recently has really now made that a broad-based black empowerment group so you're dealing less with a small group of fairly wealthy blacks in Johannesburg and having a much broader base where you're getting down to the tribes.

And the benefit of the mineral wealth is actually getting distributed much more to where it should be and



that's in the local areas and the local regions. Those types of things, I think, will continue and if anything, strengthen in the new government but I still think the fundamental benefit that comes out of the mineral activity in South Africa will really give it sort of an important, very visible category for them not to go too crazy.

Jay Harris: Hello?

Larry Washow: Yes.

Jay Harris: Oh, all right. You finished.

Larry Washow: That was it, right.

Jay Harris: I didn't hear the end of the sentence so I thought – coming back to the various businesses, a very – on your minerals product line, what are the end uses for the basic minerals?

Larry Washow: I'd say the ((inaudible)) things, Jay that we talked about for years, obviously, metalcasting; oil drilling.

Jay Harris: No, no. You have categories under one of your exhibits where you break the mineral product lines into metal casting, special materials, pet products ...

Larry Washow: Yes.

Jay Harris: ... minerals and then other product lines. And a very substantial portion of your revenue growth September-over-September quarter came in the sub-segment basic minerals.

Larry Washow: Yes and basic minerals includes things like oil drilling, which is the ...

Jay Harris: So that's a lower margin ...

Larry Washow: ... Not really.

Jay Harris: ... All right, so are you – so you've ...

Larry Washow: It just doesn't fall into the other categories.

Jay Harris: ... All right.

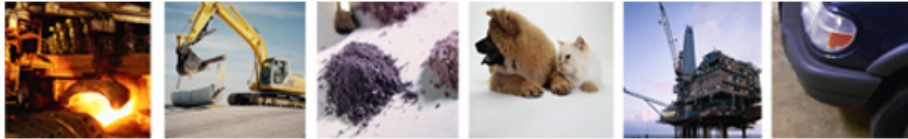
Larry Washow: So we just try to give a range of kind of what's in there.

Jay Harris: All right. Is that comparable – is that growth in revenues comparable margin to the total business?

Larry Washow: Yes or better.

Jay Harris: Or better, OK. And I presume that you're looking for additional growth in that area, looking out over the next year?

Larry Washow: We are. I mean right now the oil drilling and gas drilling business is very strong and the



pricing could ameliorate that somewhat depending on the final commodity pricing that develops over the next several months. But at this stage that's very busy. Some of the other key mineral areas, again, more export for our international partners than necessarily the U.S., but the iron ore pelletizing business has been very strong, are seeing a bit of softness now in the steel market, which is where iron ore pellets end up. But in general that market has been a real solid business for us out of India and also within the U.S. on a smaller scale but those areas, again, good opportunities as long as they stay reasonably OK, we do expect to see continued growth.

Jay Harris: I may have missed it but your comments on metalcasting given the current state of new car registrations in Europe and the United States was, I thought, kind of upbeat.

Larry Washow: Yes, it is an area of concern. If there's one area that metalcasting obviously and that's the biggest end use for metal casting products is in automotive. The U.S. numbers are way down and that certainly – we've seen that in the softening of our volume here.

In Europe, we're not that big in the automotive foundry sector so it's not quite as visible. The other area, in Asia, where we're a fairly good-sized foundry business that seems to be a bit more stable, hasn't come down as much or as fast as the U.S.

Jay Harris: But where do you think this'll net out over the next six months; flat, still showing some growth or worse?

Larry Washow: In terms of the automotive or minerals overall?

Jay Harris: Metalcasting.

Larry Washow: Metalcasting, I think we'll actually still see some growth, in part, because when the South African business comes online, all that end product ends up in the metalcasting market.

Jay Harris: All right but that in other words, looking at what's going into iron foundries.

Larry Washow: Yes, I think it'll – again, it really depends on the whole economic cycle. If everything really continues to slow down dramatically, it will – it'll be flat. If things kind of continue as they are now, we expect to see continuing modest growth just given the breadth of the range of markets that we're in around the world.

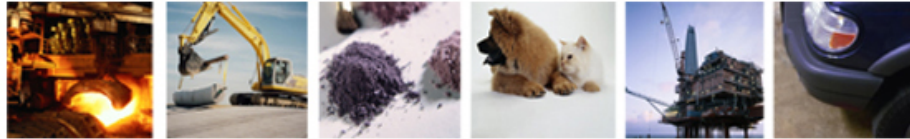
Jay Harris: And you would attribute that what, to market share increases in Europe and net growth in Asia?

Larry Washow: Net growth in Asia, primarily.

Jay Harris: Primarily, OK. In the environmental product lines, just to sort of repeat a little of what you've gone over already, you seem to indicate that the new products are offsetting the cyclicity caused by lower construction activities in North America and Western Europe. Is that something that could continue right through 2009? How do you make that – how do you come to an equation on these issues?

Larry Washow: Yes tough to predict. It's really the cycle out through 2009. Again, one of the benefits we have a broader product line; small acquisition we did in Europe early in the year provides a much greater breadth of products that go into the building construction side.

All of those are things we haven't had until last year or two, so to the degree that the markets slowdown, which they are, we can offset that by having more products and more lines of material on each job. Again,



we got to win the jobs, obviously. That can certainly help offset some of the slowdown.

So the net end result's hard to say but we do not really look for a significant drop in that business at all.

Jay Harris: Mining technologies, have you seen any evidence yet of funding issues, which would slowdown projects?

Larry Washow: Haven't yet; I mean most of these – again, projects being built now were approved and funded, probably you know a year ago or something and seem to be going on just fine. Landfills, in particular, they you know they tend to be necessary things so they go through.

Some of the areas that we'll keep a close eye on and the fast-growing is the use of our lighting material in ponds related to mineral activity and mining. And that's been a nice growing area for us, depending, on what the commodity cycle ultimately does and it really slows down across the board that could be an impact. But I think long-term, again, we're looking at pretty strong commodity demand around the world, so even that business if it slows down a little bit, we don't expect it to be a significant factor.

Jay Harris: And finally in Oilfield Services are there any initiatives outside the United States that are likely to show rapid growth – meaningful rapid growth in looking out over the next 12 months.

Larry Washow: Meaningful rapid growth is hard. We certainly are – we'll have a good bit of activity in Brazil that we've never had before; relative revenue isn't huge. Malaysia's been very active in building up a good team of people there; a lot more activity in that region. We should certainly see some more activity there. Nigeria's been in the mix for quite a while, so that's pretty stable. So I think those areas where there's growth opportunities we will be there but I mean the U.S. is 80-odd percent of that business so even if they grow very nicely it's not going to have a huge impact on the overall ...

Jay Harris: Very well, thank you.

Larry Washow: Thank you, Jay.

Operator: And next up we have Todd Vencil with Davenport.

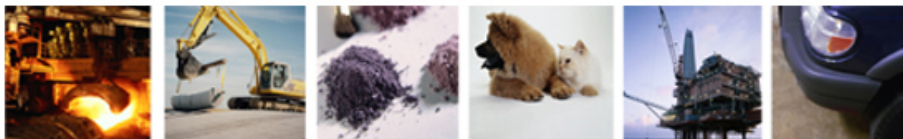
Todd Vencil: Hey guys.

Don Pearson: Good morning.

Larry Washow: Morning.

Todd Vencil: Good to see the pricing coming along in the minerals business. Can you sort of give me some color on that? You know what products are you really pushing price on? And how's that going? Where do you think you are in sort of the process of implementing that?

Larry Washow: Pretty much across the board; I mean the U.S. market for bentonite is very tight and its – the tightness has really come about because of the substantially increased demand in the drilling market. And you can't do a lot of the drilling that gets done without bentonite so the demand there just continues to be extremely strong. The foundry business obviously has slowed down some but that's been offset by a combination of the drilling and the iron ore pelletizing. So all of those areas, drilling and foundry, iron ore pelletizing, specialty products have been part of our margin improvement program. And the pricing has gone up in all of those areas. We expect a continuing round of additional price increases as we get into 2009, so we're not – there are price increases going in Q4, as well, so we're moving the pricing up. I wouldn't say customers are overjoyed with it but they see the margins as well as we do and understand the



need to do that. And you know the nature of the market supply/demand situation is such that it's a good position for us to be able to do that.

Todd Vencil: OK. So given – well, let me back up there. Are we – in terms of what we've been able to see in the results so far, on the impact, are we in the third inning there; are we in the sixth inning in terms of the impact?

Larry Washow: We're early-on, Todd. I'm you know the margins in minerals need to be at least in the mid-20 percent range, so you know we're at 17.7 now. That's a long way to go but we're going to get there.

Todd Vencil: OK. And in terms of the energy hedging program, can you guys maybe elaborate a little bit on what you're thinking about doing. How much of your exposure, over what period you're thinking about hedging, things like that?

Don Pearson: Yes, Todd, we're really just starting the process now of kind of evaluating and studying it. So we're talking to some of our banks and others to get a sense of what the opportunities are so we probably have some type of laddered approach on diesel with some type of hedges on the natural gas and energy. And electricity, we'd probably have some type of forward purchasing of contracts. We're working with an energy consultant there. So we expect some of those – both of those programs to be in place as we get into, probably, Q1 of '09. But again, we're really – I mean we just kicked off these projects within the last month or so, so we're evaluating.

Larry Washow: And as you probably know, Todd, we're fairly conservative so we're going to learn about these things and start off in, kind of measured steps. We're not going to jump out there and start doing wild and crazy things, but we do think there's an opportunity, especially, given the current energy situation to kind of secure positions over much longer time horizons and sort of be subject to the whim you know week-to-week, month-to-month in the markets.

Todd Vencil: Well that makes sense. On – just sort of a question on the third quarter, Don. In terms of the \$1.6 million or so of foreign exchange hit that was in other expense, what's the mechanics on that? I mean what is that exactly and how does it end up being in "other"?

Don Pearson: Well, the balance sheet translation goes down in the other comprehensive income, so this is really the transactions. You know paying cash or paying bills, receiving cash from customers, so those transactions go down to that line item. So generally in the past couple years the dollar's been relatively flat to declining, so its kind of been a non-event to the company.

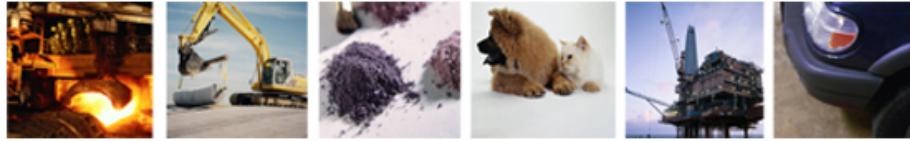
But in Q3, the dollar appreciated, probably, eight to maybe 10, 12 percent against some of the major currencies that we're in and that just ends up working against us.

Todd Vencil: You have a feel for what that adjustment would be in Q4 if currency ended the quarter where it is right now?

Don Pearson: Well, if it is where it is right now, then that means we'd have a limited effect. It's a function of where these transactions were receivables and/or payables are put on the books for the most part it ought to drop substantially.

To the extent that things are flat, what we want to do is, again, get our arms around these exposures and the currencies and take a conservative, as Larry said, take a conservative approach towards hedging but you know put some collars in place so that we limit and contain these spikes and these surprises.

Todd Vencil: Got it. On working capital thanks for the color around the DSO targets and things like that. I



mean at the end of the day what kind of improvement, what kind of cash do we think we can wring out of that? Do you have an idea about that?

Don Pearson: Well, it's a large – its large numbers, so certainly in the millions. You know there could be \$10 million there.

Larry Washow: Yes, it's hard to say. It really depends on, again, the growth of the company because on a relative basis, if you look at DSO it really hasn't gotten a whole lot worse in the last few quarters. There's areas we can definitely improve it and we're going to do that.

But obviously, the expectation is we continue to grow sales and that does require cash but clearly, there's a strong focus on making sure that we really get the cash in we should, in the right time and pay the bills in the right time and get on top of some of the receivables that have been stretching out there.

Larry Washow: Todd, I think, also that as we built out this ERP, just having global systems where you have visibility certainly makes it much, much easier to do the type of things we're talking about. So, again, I don't use that as an excuse but we're building out all of our systems across our global enterprises and that'll give us more visibility to take the actions that we need to take.

Todd Vencil: That's sort of a 2010 completion, right?

Don Pearson: Ultimately, yes. Although we do have elements of it in place in Europe and in Asia but again, I don't use that as an excuse. It's easy enough to understand what your receivables are and make improvements.

And we are, as an example, putting in a credit manager in Asia Pacific that we've never had. We also have a new credit person starting on Monday, in fact, in our Oil Field Services group. So just having somebody on top of those things is – can have an impact.

Of course, we don't want to be backward looking and just collect. We want to be proactive in managing credit and managing cash collections; having technology with electronic funds, et cetera, so we want to look at everything to improve the cash coming in more quickly.

Todd Vencil: Got it, OK. Thanks.

Don Pearson: Thanks, Todd.

Operator: And we have a question from Andrew Nelson with Nelson & Associates.

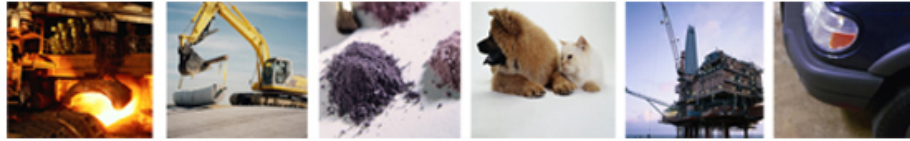
Andrew Nelson: Good morning. How are you?

Don Pearson: Good.

Larry Washow: Andrew, very good.

Andrew Nelson: Good. I have just about three quick questions. Are you going to break out or maybe you already do your foreign sales versus your domestic?

Larry Washow: Yes, we do, Andrew, in terms of the overall numbers. One of the charts towards the back of the press release and I'm not quite sure what page it's on but we ...



Larry Washow: I think it's the last page.

Don Pearson: ... last page is where we break out by segment the group – the sales in Americas, Asia Pacific and Europe and the Middle East.

Andrew Nelson: Yes. That's OK. I'll look for it. Have you – my second question is, have you changed your risk return outlook due to the current crises that we're in right now? Are you looking to increase your rate of return relative to the risk you're going to take?

Larry Washow: I think in terms of acquisitions, Andrew, we probably would certainly look at that in the context that financing of those is going to be a higher expense, so they have to be able to return you know a greater reward than they might have when you know financing costs were a lot lower. Clearly, it is a different environment.

We tend to be fairly conservative no matter what the environment, so I don't know that our risk profile really has changed a lot. We're pretty careful about what we do and what we look at but certainly, in terms of new things and new acquisitions the payback would have to be strong enough to support the obviously higher cost that we're all going to pay on the financing side.

Andrew Nelson: Well, thanks. And my last question on your line of credit, I guess you have \$50 million or so that you haven't drawn down.

Don Pearson: Fifty-seven, yes.

Andrew Nelson: Fifty-seven, are you having trouble getting it or keeping it? Are banks beginning to squirm or ...

Don Pearson: No. Again, we've got a pretty strong bank syndicate. We're talking to them all the time. There's six in the group. They're fortunately stronger banks, so we have no issues. We always talk to other banks, as well you know just to keep relations there but we feel that we're in a pretty good space right now.

Larry Washow: Yes, we're in good shape with the loan agreements and the banks, in some cases, have worked with us for decades, so they're very familiar with us and very comfortable where we are there. We don't see any issue at all in terms of the company and the availability of credit.

Andrew Nelson: Good. Well, thank you and have a great day; appreciate your answers.

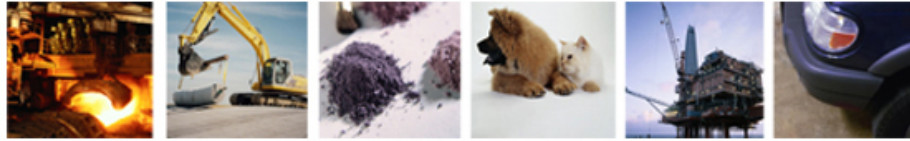
Larry Washow: Thanks, Andrew.

Andrew Nelson: Bye.

Operator: And we have a follow-up from Al Kaschalk with Wedbush Morgan.

Al Kaschalk: Hey, Larry, just wanted to follow-up on the acquisition here. Can you remind us, I think you've already made some payment or prepayment on the acquisition what's left in terms – are you able to give us additional details on the expected cash outlay.

Larry Washow: ((inaudible)) the Australian acquisition, we did already put six million U.S. down. If the deal didn't go forward that would come back but we believe it will go forward and get done here in the next several weeks. The total deal is \$41 million, Australian and at this juncture, with the currency that would be



an additional ...

Don Pearson: Well, yes so we owe \$40 million – 41 million Australian. The Australian dollar's moved in our favor so the net cost there will probably be 30, 35 million. We've got a hedge, actually, in place there where we've locked in a very favorable rate and then we've got – as Larry said, we've got a – we put six million in as a receivable so that'll net against it, so the next cost will be about 29, 30 million.

Larry Washow: And then on to of that AI, we do have to build a plant and that will – five to eight million of cash that'll all be 2009, most likely or most of that anyway but – so the total investment will end up being less than \$40 million U.S. spread out over a few quarters.

AI Kaschalk: OK, so you know and naturally all of us are concerned about credit here and with \$57 available ...

Don Pearson: Plus \$33 million cash.

Larry Washow: Yes, we look at our liquidity, so we've got \$90 million of liquidity.

AI Kaschalk: But I mean peak-to-trough I guess of working capital and again, the quarter whatever be something ...

Larry Washow: Yes, exactly. Working capital will come down that we'll pay to South Africa some ...

Larry Washow: The third quarter as you know AI having followed us, is really when pretty strong for environmental and it tends to be the highest cash consuming quarter. We usually start to see that really generate and come back in a positive way in Q4 and we'll see that again this year.

AI Kaschalk: OK, great. Thanks a lot guys.

Don Pearson: Thanks, AI.

Larry Washow: Thanks, AI.

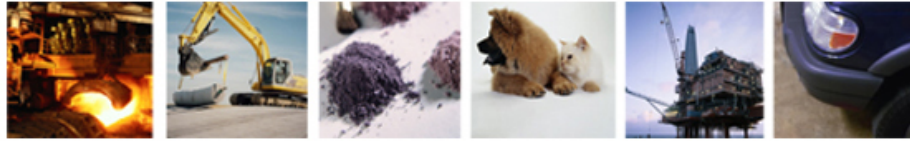
Operator: And our last question will come from Rich Wesolowski with Sidoti & Company.

Rich Wesolowski: Thanks. You mentioned in the press release a product mix change that contributed to the oilfield margin, what was it? Is it something you expect to continue?

Larry Washow: Really a function – actually, a function of the hurricanes, as much as anything because the – depending on which of the services we're providing, the land-based will not be as profitable as the offshore. So, if we've got – if we're doing filtration onshore, it just doesn't generate the same kind of margins that it does offshore because not all the competitors can go offshore.

So that's – the products themselves – the product mix, we didn't know how to describe that very well, Rich but the concept is the nature of the service and where its provided determines the ultimate value you get out of it. And when you take us out of the Gulf of Mexico for several weeks, what gets replaced in terms of the product or the service just doesn't create the same value.

Rich Wesolowski: Right. Is there anything that would say that if energy prices go up or if they go down you'll do more land-based or offshore activity?



Larry Washow: The only impact that you might see is the land-based activity tends to be more natural gas related.

Rich Wesolowski: Right.

Larry Washow: And if that activity slows down then the land-based activity could slow down. We don't think the offshore activity is going to slow down there. Again, there are massive projects that are multi-year, so things that are happening we think will continue to happen offshore.

Rich Wesolowski: So, is 38 percent still a sustainable gross margin for that segment?

Larry Washow: I think it is. I think we're looking at the upper 30's; 37, 38 is the range we're pretty comfortable with.

Rich Wesolowski: The contribution from the tubing acquisition felt a bit short of the annualized rate that we were expecting, was that too affected by the hurricanes?

Larry Washow: Definitely. That had a big impact. And that was actually one of the bigger impacts for the quarter because a lot of that had planned to be used offshore and its nicely profitable business and it just stops. And when the – in some cases, when they saw the hurricanes coming, they said, well don't ship anything else out there.

And then when the second hurricane, Ike, I guess was the second one coming, they said, well let's hold everything. So even though the hurricanes were just a few days each, the time gone was several weeks. And in fact, Schlumberger talked about that in their press release today, as well; give you a good idea of what they see in the oil market but the hurricanes had a bigger impact on the business than most people realize.

Rich Wesolowski: And finally, does the Indian government's action on the bauxite exports accelerate your efforts to monetize your investment?

Larry Washow: It certainly keeps it very visible and important for us to make sure we know what's going on there. Yes, it makes it perhaps a bit more difficult to do all that but we're very close to what's going on there. And the same people are still running it, so you know I think we're going to be OK there. This is sort of an unexpected blip over the last several months but assuming they do get it sorted out, I think we're going to be in great shape there for next year.

Rich Wesolowski: OK, thank you.

Larry Washow: Thank you.

Operator: And with no further questions, I'd like to turn the call back over to today's speakers for any closing comments.

Larry Washow: Thank you all for joining us today; lots of good questions and look forward to talking to you after the end of Q4.

Operator: And once again that does conclude today's conference. We thank you for your participation. Have a great day. END