



## Q3 2009 Conference Call

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Larry Washow; AMCOL International; President and CEO  
Don Pearson; AMCOL International; SVP and CFO

### Analysts

Al Kaschak; Wedbush Securities; Analyst  
Rich Wesolowski; Sidoti; Analyst  
Jay Harris; Goldsmith and Harris; Analyst  
Nat Kellogg; Next Generation; Analyst

**Operator:** Good day, and welcome to the Third Quarter 2009 Earnings Call. Today's call is being recorded.

A replay of this call will be available starting at 1:00 PM Central Time today. You may access the replay by dialing 888-203-1112 and referencing passcode 9323463.

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

Hopefully, you've had a chance to take a look at the press release that went out early this morning. If so, you note that the earnings were \$0.43 a share for the third quarter for AMCOL International. Obviously, revenue still down from last year and the profitability down, as well, but a nice sequential uptick that I think we're pretty pleased with overall.

Certainly, the challenge going forward is on the revenue line. We'll talk about that. But the good news is on the margins, and the gross margins, we'll get into some detail on that going forward, as well, but I do think the positioning of AMCOL is very good right now and resulted in a pretty good quarter overall.

So we talk about some of the segments --

Minerals -- As you will note, we talk about a plant write-off in the press release, a couple million-dollar impact on the earnings. That is not one of our blending plants where we blend the bentonite and supply a bonding material to the foundry. This was a business we got into several years ago and have a very nice profitable plant.

We built another one that didn't work out so well and just recognize it's really not a business that's going to get to the level we think is appropriate to maintain it, so we have written that off.



We will continue with the original plant and obviously go forward in the main business, which is the bentonite blends.

Gross margins continue to improve in spite of that write-off in the Mineral sector, and that was certainly very encouraging.

Europe overall has had a good year. The consumer-related business over there, primarily related to detergent products, has been strong, but also, I think it's important to note that our Turkish operation that we bought a little over two years ago really has had a strong 2009 as we've gotten the operations really sorted out there. That's a very nice business for us.

In the US, pet products continue to do well, and the metal casting business, while down from last year, Q3 really represented a pretty reasonable tick upwards in part due to the "Cash for Clunkers" benefit as the automotive business grew pretty nicely in Q3.

Environmental -- Third quarter most often is the best quarter. This year was no exception. The challenging environment continues. As we've talked in the last couple of calls, commercial construction activity is very slow. We just don't see any signs that that's picking up in any meaningful way, at least in North America and Western Europe. A little bit of activity in Asia, but the major markets are still very soft there.

Lining tech is okay. The European business has been doing pretty well, primarily in areas outside of the traditional landfill business, which is encouraging as we continue to develop markets for that product, which started off as a landfill liner but is now involved in a whole range of applications where people are protecting the soil or the groundwater. The lining tech business overall is okay, but again, off of last year's numbers for sure.

Oilfield Services had a great third quarter last year, and if you recall, we acquired the coil tubing business in the second quarter and carried on, and they were doing very well into Q3, and that's when the bottom fell out shortly thereafter. So a tough comparison, but the good news is margins again held up there fairly well, gross margins.

We continue to work on the offshore business as the real focus there, but at the same time, trying to identify opportunities that might be there in some of these shale formations that you've read about, and we do see some interesting possibilities there, and our business outside the Gulf of Mexico, in Malaysia and Brazil in particular is strong. So it's hard to predict what will happen there if oil prices kind of continue their upward trend. In general, that's a positive, but there's a lot of gas-related activity, as well, and I think people are less sure about the future for the gas prices going forward.

So, overall, a pretty solid quarter. We're still working on costs. We've got some opportunities to do better. Overhead is still an area we focus on, but essentially to me, I think the important understanding from the quarter is that we're -- we've positioned the company, recognizing that the soft markets are likely to continue for a while, but when they come back, we're in great shape to take advantage of it.

So with that, I'll have Don go through some of the financials, and then we'll open for questions a bit later.

**Don Pearson:** Okay, great. Good morning, everybody.

Want to start off really just taking a look at the sequential improvement in the operating margins in 2009. Q1, we were at 6.2%; in Q2, we increased to 8.1%, and then in Q3, of course, we're at the 10.1%.

So as Larry noted, we continue to watch the overhead costs across all the segment and at corporate, but we're balancing between continuing to build out the infrastructure and, again, looking for future growth and protecting some of our key resources within the company.

On the foreign exchange, want to just walk through this briefly because, obviously, all the news recently has been the weakening of the dollar, but we're comparing year over year, and that is really -- when you look at what the dollar's done to our large currencies, the zloty, the euro, and the pound, it actually has strengthened if you look at Q3 '08 over Q3 '09. And, of course, when the currencies are weaker, that translates to different dollars. If it strengthens, we'll have fewer



dollars. So that is really the driver of that foreign currency impact.

Also looking at the other net line, which is the transactional side of foreign currency, compared to the prior year, that improved substantially. It's about \$100,000 gain, and I think that's really just attributable to credit markets really settling in and less relative volatility in all currencies.

Take a look at the tax expense line. Effective tax rate for the quarter is 20% compared to a higher percentage last year of about 25.7%. Again, this is a function of where we're earning our profits, and as we continue to have more profits outside of the US, there's lower taxes overseas.

For the foreseeable future, I would see that effective tax rate to probably increase to maybe the mid-20% that we've traditionally seen over the next year or two.

On the joint venture line, \$700,000 for the quarter. If you recall in Q2, there was a loss of about \$1.6 million. The majority of this improvement is really coming from our joint venture in India, Ashapura Volclay -- that's where we have a bleaching earth business -- and then to some extent, improvements in our joint venture in Russia.

Moving on to the balance sheet, continued improvement in working capital throughout the year. Quarter over quarter, we're up a bit, about \$6 million, but that's essentially seasonality and increase in revenues quarter over quarter.

I do want to remind you that we do consolidate South Africa, so when you look at line items like land and minerals and other assets and other liabilities, the big increase in those areas relative to December is the consolidation of South Africa, where we own 53% of that.

Finally, on the cash flows, again, probably the headliner here is really if you look at the operating cash flow number, on substantially lower revenues, we had \$91 million of operating cash flow compared to \$3 million in the prior nine months last year

Also, on the capital line, you see about \$40 million of capital spending. We probably expect about 7, maybe up to \$10 million in the fourth quarter, so again, bringing that annualized number into the upper \$40 million, up to perhaps \$50 million for the year in capital spending. And then in the financing area, again, the real cash payments on the debt is about \$42.5 million year to date

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

**Larry Washow:** Okay, thanks, Don, and we are ready for questions.

**Operator:** (Operator instructions) Our first question comes from Al Kaschalk with Wedbush Securities. .

**Al Kaschalk:** Morning, guys.

**Larry Washow:** Morning, Al.

**Don Pearson:** Morning, Al.

**Al Kaschalk:** Phenomenal print on the quarter. I want to get to that in a second, but I want to first start on Environmental.

It seems like the strength on the margin side doesn't maybe correlate well with the volume side or the top line, and I'm just struggling a little bit with the gross margin performance relative to the year-ago period and then the flattish or slightly down operating margin.

So, Larry, could you add maybe just a little bit more to the end markets and what's happening there to show strength? I think the comment -- you've indicated that Europe is going to probably be the best in 2009 that you've seen in a while, so if you could help us [inaudible] that and then think about how we should think going forward for that segment, that would be great.



**Larry Washow:** Sure. A couple things going on there, Al. I think the mix of business, the European markets tend to be a little better margin than some of the US markets in the lining tech area, as well as the building materials group, but another important factor is raw material costs have come down. A lot of the raw materials used in making GCLs are resins and oil-related products, and compared to last year, the cost of those materials has come down quite a bit. So we did get the benefit of a bit of lower cost of sales from the raw materials side and a little bit of pricing and product mix going on, so the gross margin, kind of a function of both of those and where the sales are coming from

The operating profit, as you noted, that was down a little bit, and that's kind of the balancing that Don mentioned in trying to manage the overhead side. We've got some really skilled people in key roles, even in the building materials area, where while it's going to be slow for probably a fairly protracted time, we want to maintain and retain the right talent base to ensure that we're positioned well for when that market returns

So the relative reduction in overhead versus sales, it looks like there's a bit of a disconnect, but it really is a focused, concentrated effort to make sure we've got the right assets in terms of people and strength to take the business forward.

**Al Kaschalk:** Is the mid-teens just a seasonally strong number on the operating margin side, or is this something where over time that we should be in that 13, 15 range on a quarterly basis?

**Larry Washow:** Yes, I think historically, Al, that is kind of the range. I mean it's 15-ish percent, plus or minus, depending on kind of product mix and business levels. Third quarter will be the strongest typically, but that range on a year-over-year basis certainly is sustainable.

**Al Kaschalk:** Okay. On the project side, are you hearing from customers -- I mean is your mix of business such that you've maybe finished some larger projects in the quarter and maybe benefited there on the margin side, or are you starting up newer projects that perhaps are a higher-margin business?

**Larry Washow:** Well, it's really -- it's a combination of both, and again, remembering the raw material benefit, the margins look a bit stronger this year than last year, but the projects are -- it's one of the challenges in that group because they come in lump sometimes, and then it's very quiet, and then it gets really busy, and big projects that they say, "Well, we're going to wait a while," then maybe they'll call up tomorrow and say, "Oops, we decided we want to get this underway."

So it is difficult to call, but I think in general the project mix wasn't particularly unusual this quarter.

**Al Kaschalk:** Okay. If I could hop to the joint venture line, and I think that was a relatively surprise for you maybe in terms of the performance, as well, but could you talk about the trends there now going forward because I think the \$700,000 contribution, while it's only a couple of pennies, certainly is a lot better than most of us, I think, were looking for.

**Larry Washow:** Yes, we had actually predicted breakeven to modest loss in the JV line, and keep in mind, we report a quarter lag, so this is their second quarter. The first quarter that we reported and our second quarter was terrible for everybody. We did see improvement really across the board in the second quarter, and I think we'll see similar type things the balance of the year.

The Ashapura Volclay business is bleaching earth, as Don mentioned. That's using acid-activated bentonite and clarification of edible oils, and that business is very strong within India itself, as well as the export side, so that's an ongoing -- again, one of those consumer-related businesses that we think will be very strong throughout. So that should continue.

Our Japanese joint venture is profitable. The Mexican joint venture is profitable. Russia is a little bit more difficult to say, but it's certainly turned a bit of a corner from our last quarter. So I would say at this juncture, trying to look ahead, we would expect at least that JV line to be a contributor for the balance of the year.

**Al Kaschalk:** Okay, and then I have -- on the gross margin side consolidated, I think it was 28% in the quarter. How do you think about that with the ins and outs of the various other businesses? Because I think we're heading into a period now where your pricing strategy or implementation is probably not annualized, and it's going to be dependent on volume.

So indirectly here, I guess, the question that I'm really asking is do you feel like maybe in this period we over-earned in the quarter relative to sustainable earnings on a quarterly basis?



**Larry Washow:** I don't think we ever over-earned, AI, but that's an interesting perspective. Actually --

**AI Kaschalk:** Well, if you're out to \$0.05, you're already up to \$0.48. I think [inaudible]. That's a strong quarter, very strong.

**Larry Washow:** It is a strong quarter, and I -- you know, I think when you look at the gross margins, the weakest one continues to be Minerals, and I so believe that the mid-20s on a sustainable basis is where that business should be, and absent the write-off, we would almost be there this quarter.

So I think, to your point, this is probably orders of magnitude not a bad kind of number, 28% plus or minus, if you're looking ahead for the gross margin. I don't think it's excessively high. I think you will see a bit of a dip in Environmental just because of the slower fourth quarter, but year over year on a sustainable basis with Oilfield Services, Environmental and improved Minerals, the upper 20s is where it should be.

**AI Kaschalk:** Yes, [inaudible], and I appreciate that we've done some acquisitions over the years, and there may not be perfect adjustments for our sustainable earnings operations, but I think the last quarter that we hit 27 was back in 2007, June, and this year, we've hit it over 27 twice now. So --

**Larry Washow:** Yes.

**AI Kaschalk:** -- that's the basis of my question. So thanks and congratulations on a strong quarter.

**Larry Washow:** Thanks, AI.

**Operator:** We'll move on to Rich Wesolowski from Sidoti.

**Rich Wesolowski:** Thanks. Good morning.

**Larry Washow:** Morning.

**Don Pearson:** Morning.

**Rich Wesolowski:** On that Minerals margin that kind of jumped off the page, I had a couple of questions regarding your restructuring in that segment. How many Additrol plants are you now operating, and how many was that at the beginning of the year?

**Larry Washow:** We've closed down two, so we're -- and they were relatively small, so we're operating -- and I should know the number off the top of my head -- seven or eight, I believe it is now.

**Rich Wesolowski:** Okay, and the -- have you closed any production lines other than the one you had mentioned up in South Dakota?

**Larry Washow:** No. No, Belle Fourche we idled earlier on in the year, but that's the only operation -- the only major operation that's been idled.

**Rich Wesolowski:** Okay. And are there any other past or expected restructuring actions that you've taken?

**Larry Washow:** No, I think we're pretty comfortable. I mean the real focus, quite frankly, has been on improving the productivity and the efficiency of the ongoing operations, and so we're very confident, and I think it's starting to show up in the margins, that we can do more with less. So when the business comes back, I believe that we're positioned to really ramp up for quite a long while and not have to take any idle plant back into action any time soon.

**Rich Wesolowski:** Okay. If this is the margin you can attain even now when diesel averages \$2.60 a gallon and you have presumably some further room to price when the economy recovers in 2010 or 2011, can you discuss your reasoning on passing on the opportunity to hedge at least a portion of the diesel or even natural gas costs at today's prices?

**Larry Washow:** We do a little bit of hedging on natural gas. Diesel is more difficult in that we don't use it in a centralized place, and we don't always control it. We do a lot of contract mining. We do some of our own. Our trucking operations we use on our operators. We do have contracts with diesel suppliers that the trucks will stop at along the way, but we haven't figured out a good way on the diesel to really hedge that in a sustainable, reliable way that's going to give us



enough value and benefit to justify the cost and the approach.

We do -- on the natural gas, we do some things already, and that will continue, but the diesel's a bit more scattered, and it's hard to figure out how to do that well.

**Don Pearson:** Yes, we are talking to the banks about that, and you can sometimes look at, I guess, heating oil, and so we do have ongoing dialog on that area, however, with the hedging, haven't done any real --

**Larry Washow:** Formal contracts yet, no.

**Don Pearson:** -- contract hedging.

**Rich Wesolowski:** The -- on the chrome sand facility, can you remind us of what the capacity is, what your initial goals are, and how much of the market you're ultimately aiming at?

**Larry Washow:** Chrome sand facility, which should be completed the second quarter of next year, initial capacity's about 100,000 tons. We think that represents less than 20% of the overall market, so the opportunity to sell out that capacity within a couple years, we're pretty comfortable is real.

**Rich Wesolowski:** Okay. Can you discuss the factors that give you the confidence that larger chrome sand producers won't pursue this narrow casting market that you're aiming for if you indeed prove that you sell it out and the margins are as good as they can be?

**Larry Washow:** Yes, I think it's -- again, it's really a question of focus and expertise. They do have the chrome sand, but they're not going to build the plant we're building to really create the value and the quality and the consistency of the raw material and provide the technical support to make it work in the foundry.

Not to say they won't get aggressive on pricing or do some crazy things, but for them, this is such a small business, assuming there's any pickup at all in the stainless steel markets and the other consumers of chrome ore, this is still kind of a sideline for them, so I don't -- there's always a risk, Rich. I wouldn't say there's not, but I think we're -- the way we're positioning this is we're bringing value to the customers in a lot of different ways, in ways that the bigger producers who are focused on the markets, I think, would find pretty difficult to match.

**Rich Wesolowski:** Okay. And then, lastly, just your expectations for pricing in that market.

**Larry Washow:** Pricing, it varies a little bit around the world. You know, it's in the \$500-plus-or-minus range at a minimum, and it goes up from there in euros, and Japan will be more expensive, but orders of magnitude, it's that -- roughly that kind of number.

**Rich Wesolowski:** Great. Thank you.

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

**Jay Harris:** Good morning, gentlemen.

**Larry Washow:** Morning, Jay.

**Don Pearson:** Morning, Jay.

**Jay Harris:** Question -- what is our total debt at the end of September?

**Don Pearson:** \$217 million.

**Jay Harris:** There's no short-term debt at all?

**Don Pearson:** No, the revolver is Q2 of 2013, and the \$75 million term is 2017.

**Jay Harris:** All right. And are you planning on further debt reduction by the end of the year?

**Don Pearson:** Yes.



**Jay Harris:** All right. And as you look at next year, we'll be running in the same mode that we ran this year --

**Larry Washow:** I think so, Jay.

**Jay Harris:** -- on maximizing cash flow?

**Larry Washow:** Yes, definitely, Jay. I think that's going to be the challenge. I don't know when the markets are going to get better or where they're going to get better. We're positioned for that very well, but the focus is really on managing the balance sheet, generating cash, and really operating the business as efficiently as we can.

**Jay Harris:** I'd like you -- Larry, I'd like you to go over the product line and at least in a qualitative sense talk about what's likely to happen in the fourth quarter and how you see next year starting out.

**Larry Washow:** Okay, let me give you a real abbreviated version of that in terms of the major product groupings, metal casting being our largest global segment. We did see the benefit of the US activity increase in Q3. The pipelines and the inventories in the car companies got to be pretty low, so I would expect kind of a carryover into Q4 at least in terms of building cars. How well that continues on into 2010 is going to be dependent on the market. Are people going to buy cars? The "Cash for Clunkers" certainly created a lot of demand, but it may well have just pulled demand forward from future quarters, so we'll have to see what people do in a normalized environment for buying automobiles.

The major heavy equipment guys are generally fairly positive. They see the activity level for commodities picking up, which bodes well for their equipment.

Farm equipment fairly stable, so that should continue to be okay.

China is definitely booming in many respects, and metal casting is certainly one. Not a huge business for us relative to the US, but an important and growing business. That will continue.

I think in metal casting, I think we're -- the US is hard to predict because it's so automotive related, but assuming there's a floor or a balance in terms of where the car production levels are today, 2010 should certainly be okay, whatever that means, in terms of the real numbers.

**Jay Harris:** Metal casting's still about 80% of the total in the US?

**Larry Washow:** Automotive is about 60% of the metal casting, and the US side of metal casting in terms of the overall total is -- yes, it's probably 75% to 80%.

**Jay Harris:** Sorry to interrupt. Go ahead.

**Larry Washow:** No problem.

The other big segment, lining tech, talked a little bit about that in the initial comments. We're really looking to broaden our market base there and identify other opportunities to expand beyond the landfill. The landfill business is good. We think that will continue to be okay, but we want to have a much broader base, so when things slow down in one market, there's other markets to pick it up. So a lot of time on the mineral development activities, guys developing minerals typically end up with [slimes, ponds, or tailings] that they need to put into proper form, and a lot of times, the GCL products can be used in that type of application. Lining the sides of roads to protect the soil very common in Europe. Lining canals in China to make sure the water gets all the way down from the hillside, as opposed to getting absorbed, is a growing business.

So we really look at the lining tech business, recognizing that this year is pretty soft, as one that should grow once we're really better established in a broader range of markets. So we're looking at 2010 and saying probably going to be okay, and if some of these markets come back at all, it could be fairly good.

**Jay Harris:** Fourth quarter?

**Larry Washow:** Yes, fourth quarter for Environmental is generally a bit slower. I think we'll see that again. It'll trend back



to kind of a traditional dip off the third quarter.

The Mineral side, we have seen a little pick-up in the drilling activity, not substantial, but again, maybe that's hit a floor. So that one's going to be dependent on metal casting and continued good results from pet products.

**Jay Harris:** Okay, and then what about Oilfield applications? Are we seeing a continual slackening in the US, or when gas prices doubled from 2.5 to -- roughly to 5, are there any indications of a pickup in activity?

**Larry Washow:** Haven't really seen it yet, and I think people are trying to figure out if that was a real jump, and even at five, it's still a relatively low price compared to what it was.

So we haven't -- haven't seen anybody get excited about \$5 gas yet, but you're looking at oil now north of 80 potentially. If that is sustainable and if gas is 5 and heading upwards as we get into the winter, there might be an opportunity to see some pick-up in activity there.

We're trying to broaden the base, as I mentioned. The Gulf has been such a big focus for us for several years. Now getting outside the US into some of the major offshore areas in Asia and South America are important and really developing very nicely. Won't see a big, big benefit from that this year, but I think as we get into next year, we ought to see some traction in those areas, and the sales will start to really show up and provide some value.

**Jay Harris:** What percentage of your this-year-to-date Oilfield Services outside of the US, both the Gulf and Continental?

**Larry Washow:** The number that -- I don't know if we put it in our press release or not -- probably 10% or 15% is outside the US.

**Don Pearson:** Yes, probably more like, yes, 12% to 15%.

**Jay Harris:** And what do you think you can achieve next year?

**Larry Washow:** We'll definitely see that grow. It's really hard to know because this is such a project-driven business, and if we got on a couple of big projects that were two or three-year-long projects, that could change pretty quickly, but we'll just have to see how successful we are. So that one's a very difficult one to predict.

**Jay Harris:** So if I -- and then construction, could you do that for the fourth quarter and then the outlook for next year?

**Larry Washow:** Yes, commercial construction is very slow globally, and I just don't see that changing even on to the next year, so I think we've got a long-term soft market for commercial construction. It's still going on. There's still buildings being built, and we're aggressive and active in making sure we get our fair share, but relative to previous years, I think this year we're down 35, 36%, in that area. That's -- I think that's where it's going to stay for a while.

**Jay Harris:** Okay

**Don Pearson:** Hey, Jay, that's about 9% is outside of the US for Oilfield Services year to date.

**Jay Harris:** Oh, all right. I'll step aside for a moment.

**Larry Washow:** Okay.

**Operator:** Our next question comes from Nat Kellogg with Next Generation.

**Nat Kellogg:** Hi, guys. How're you doing?

**Larry Washow:** Morning, Nat.

**Don Pearson:** Nat

**Nat Kellogg:** Just a couple of things. I realize it's a little tough to predict where the profits are going to come from, but I mean as far as a tax rate goes, what sort of you guys are thinking about or using for, I guess, sort of full-year annualized this year and then maybe thinking a little bit about what 2010 might look like?



**Don Pearson:**

**Yes, I think this year, we'll probably end up around the 20% range, Nat.**

**Nat Kellogg:** Okay.

**Don Pearson:** And, again, depending on the growth and where that growth occurs in 2010, I don't know that we'll get all the way up to the mid-20s in 2010, so probably -- and we'll talk about this every quarter -- but probably the low 20s for sure.

**Nat Kellogg:** Okay. That is helpful. And then on the -- on the metal casting margin, I mean -- sorry, on the Mineral segment gross margins, I mean obviously those are really impressive. Just curious how much -- obviously, basic minerals is down a lot and hasn't really come back at all, and just curious about how much that affects the mix. I mean if we expect that that business starts to recover in 2010, does that put a little pressure on margins just because from a mix standpoint it's a little bit less rich gross margin business?

**Larry Washow:** Well, we've been pretty active in trying to get the margins up across all the different categories in that area. The basic minerals can be one of the more difficult ones for sure, but I -- I think that will not really be a detriment to us.

**Nat Kellogg:** Okay, so, [in fact], as that business recovers, it shouldn't carry a substantially lower gross margin?

**Larry Washow:** Yes, I think it'll be -- you'll not see the margins come down as things grow. In fact, hopefully, they'll improve.

**Nat Kellogg:** Okay. And I mean I guess another earlier caller alluded to it, but obviously, we've seen oil start ticking back a little bit here. Does that put some pressure on gross margins, or do you guys feel like you can pass those costs on pretty effectively?

**Larry Washow:** Yeah, we're going to have to watch that very closely because obviously it is a very big impact on our mining and processing business. So we look at that. We're looking at the freight rates, which, obviously, the fuel surcharges and the overall freight rates from the railroads are going up, so we're trying to be very proactive and make sure we're ahead of that curve and maintain -- at least maintain the margins and obviously, where we can, improve them.

**Nat Kellogg:** And have you guys gotten any pushback at all on pricing anywhere, or that so far continues to be taken down pretty effectively?

**Larry Washow:** Well, no customer is ever happy about a price increase, but I think we're -- again, we really focus on providing the value and making sure they understand where the costs are coming from, so I think we've had pretty good success, and I think we'll continue.

**Nat Kellogg:** Okay, and then it looked like -- over the summer, it looked like another player in the pet litter/cat litter space was losing some share at Wal-Mart, and it sounded like there might be a possibility that you guys might pick some of that up. I'm just curious if that's the case and if there's a possibility that you guys might -- I know you guys are already big at Wal-Mart but whether that's affected your business at all or whether you might expect it to affect the business over the next couple of quarters?

**Larry Washow:** Yes, we don't get into too much customer detail, but certainly that change will be a benefit for us and not huge but we'll definitely -- and we are seeing a little bit of that already. Even though the revenue side of the pet products is down year over year, if you exclude the freight component, which was reduced.

**Nat Kellogg:** Right.

**Larry Washow:** -- last year, it's actually up year over year on volume, and part of that is the benefit of increased business with big customers. So that'll continue to be a benefit going forward.

**Nat Kellogg:** Okay, and then just a couple sort of housekeeping. The net income rates are billed with a non-controllable interest. What does that -- does that relate to some of the JVs, or is that related to South Africa?

**Don Pearson:** Yes, essentially, that's what used to be the minority interest, so that's the South Africa minority interest.



**Nat Kellogg:** Okay. Okay, so I mean, obviously, we net that against the JVs that basically was a small positive in the quarter. I mean --

**Don Pearson:** Now, just to be clear, the joint ventures are items that are on the equity method, so that's going to be your 20% to 50% ownership. Because we own 53% of South Africa, we consolidate it.

**Nat Kellogg:** Right.

**Don Pearson:** And then we have to recognize the minority shareholders' portion of the profits that they should have. Now, in this case, I just want to point out the majority of the profit here is due to translation on some loans.

**Nat Kellogg:** Okay.

**Don Pearson:** So it's not operating profit yet. Again, we've got our smaller plant that is kind of moving along slowly as we build the new plant next year.

**Nat Kellogg:** Okay, so going forward, that will probably head back to a pretty small or inconsequential --

**Don Pearson:** Yes, it probably is really a function of the Australian dollar to the rand --

**Nat Kellogg:** Okay.

**Don Pearson:** -- because there's some monies owed still to chrome corp.

**Nat Kellogg:** Okay, okay. And then on the other line, I mean it sounds like you guys feel like you're pretty comfortable with the [inaudible] you guys have in place as far as foreign currency, and then, obviously, I guess, some of the movements have been more in your favor than against you. I mean we expect sort of this small positive going forward given where we see the dollar.

**Don Pearson:** Yes, actually, most of that, there's been really no or limited hedging in Q3. We've pulled away --

**Nat Kellogg:** Okay.

**Don Pearson:** -- from some of that. The volatility in the first couple quarters was pretty high, and attempting to hedge that can prove to be somewhat difficult, so we pulled off a little bit on that.

**Larry Washow:** Generally, Nate, with a declining dollar, which clearly we've had in the last several weeks to months now, it usually will benefit us, so we're kind of observing and trying to track where that is to make sure we know what's going on, but probably status quo in terms of minimal hedging is where we'll be, at least in Q4.

**Nat Kellogg:** Okay, and then just last question. I mean obviously Oilfield Services' gross margin was pretty good considering where revenue came in. Do you guys think that's pretty sustainable going forward, or was there anything sort of unusual there that sort of helped a little bit?

**Larry Washow:** That should be pretty sustainable. The services we provide are pretty broad range. We typically package them up and look to kind of generate the margins in this type of area. Obviously, there are situations where you might not be able to do that every time, but I think overall, even in this environment, to be in the low 30s is pretty consistent.

**Nat Kellogg:** Okay, okay. All right, thanks. That's great. That's helpful. All right. Well, obviously, congrats on a nice quarter, guys, and I'll hop back in the queue. Thanks for taking my questions.

**Larry Washow:** Thank you.

**Don Pearson:** Thanks, Don.

**Operator:** We have a follow-up question from Rich Wesolowski from Sidoti.

**Rich Wesolowski:** Thanks. Could you maybe tell us what you learned about the competitive position and the general barrier to entry in your energy businesses now that you've operated them for a couple of quarters of depressed and more competitive activity?



**Larry Washow:** The Oilfield Service business, Rich, you mean?

**Rich Wesolowski:** Right.

**Larry Washow:** Well, what we've tried to do in that business, and obviously it's not 100% true, but we've tried to package up a range of services that doesn't run head-on into the multi-billion-dollar major oilfield service companies, and I think we've been pretty successful really focusing in on the filtration side of that and then adding on the other element of service that we can now provide.

Now, that's not to say it's not a competitive environment. It is. When it comes to things like coil tubing, for example, the margins from when we bought that business a year ago to today have come down dramatically, and they won't go back up until the demand cycle gets to where there's a greater demand portion than supply, whereas today, it's the opposite.

So we definitely see in particular facets of that business that it's completely competitive and the margins can come down in a hurry.

Our core business, which is that filtration, is pretty unique in the technologies and the service that we provide. Not everybody can, so we tend to be a little more resistant there to competitive pressures, and once we're providing that service, we try to roll in the other things that we do very well and make a bigger job out of it.

So it's a competitive environment, no question about it. That's clear. But I think our positioning, if anything, we're pretty comfortable that we've got a good portfolio that clearly is sustainable even in a very depressed market.

**Rich Wesolowski:** I would think the margins attest to that, as well. Given the price pressure you cited specifically in the coil tubing and in the nitrogen, would you say those two are your more commoditized offerings within the Oilfield?

**Larry Washow:** Well, coil tubing clearly is more like that. The nitrogen is not. Nitrogen's actually -- not everybody does that, and again, it's a question of having the equipment and the time and the service availability, and we've got a pretty good portfolio there.

But the coil tubing, I would have to say, yes, you would look at that. You know, they'll just say, "Okay, I've got this job. If you've got the right rig, here's the price, and take it or leave it because I can go down the street," yes.

**Rich Wesolowski:** You mentioned putting in the other services with the filtration. How adept has your Oilfield sales force become in cross-selling all the services you've acquired? Would you say the bulk of work is ahead of you there or is already behind you?

**Larry Washow:** I think we've made some good strides. In all candor, it's probably only last year that that's been a real serious focus and effort, and we're making good strides, and I think there's much more opportunity going forward. But it's a clear strategy that group has now, and we've got a strong sales force that is really out there cross-selling a lot.

**Rich Wesolowski:** Okay. And, finally, I understand this may seem like a very odd question given the improvement in the economy and in your balance sheet, but I want to get your thoughts on the safety of the dividend. Even modeling a pretty healthy profit rebound through 2011, if the working capital swings to a drain on cash, I'm coming up pretty tight.

**Larry Washow:** It's something, Rich, we look at really every quarter very closely, and again, the board is very cognizant of the benefit that the dividend provides to shareholders and the historical value that that has provided, so I think there will -- I said this before -- I can't imagine there not being a dividend. Does it change if we get into a ultra-serious situation? It certainly could. The board would evaluate that. But at this juncture, we think it's probably okay.

**Rich Wesolowski:** Great. Thank you again.

**Larry Washow:** Okay.

**Operator:** If there are no further questions, I'd like to turn the call back over to Mr. Washow for any additional or closing remarks.

**Larry Washow:** Thank you, Carrie, and thank you all for joining in. We'll look forward to talking with you after the New Year.



**Operator:** Ladies and gentlemen, that does conclude today's conference. We thank you for your participation.