Q4 Conference Call 2007

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January 18, 2008 10:00 a.m., CST

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

A replay for this call will be available starting at 12:30 Central Time today. You may access the replay by dialing 1-888-203-1112 and referencing pass code 7054909.

Speakers today will be Mr. Larry Washow, President and Chief Executive Officer, and Mr. Gary Castagna, Senior Vice President and Chief Financial Officer.

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

Larry Washow: Thank you and welcome everybody. We are going to talk about the fourth quarter and for us certainly it will be a little – a little different discussion – a little more unusual than the past several years. Certainly there was a lot of good news in the quarter and we'll talk about that, but one challenging area, as well.

As you've seen from the press release, good strong revenue growth – 25 percent year-over-year growth and 10 percent operating profit growth, so obviously not getting the leverage that we expect. And there really is one obvious area to focus on and that is Minerals and the gross margin in Minerals down quarter-over-quarter – overhead up. And I want to talk about a couple areas related to that and some of the things going on to improve it.

Obviously the cost side, we got caught with a number of things going on. Energy costs certainly have a big impact on our business and had a greater impact in Q4 than we had expected. That impacts everything from the raw material where we do our own mining, or contract mining, to the shipping of the material to customers, to shipping it to our own plants – just a number of cost increases greater than we had anticipated. In addition, we actually did have several issues related to maintenance and productivity, all of which we recognized and think we have good plans and have that plans in place going forward to improve.

The overhead increase in Minerals primarily related to the acquired businesses in Turkey in particular, but we also have increased the overhead in our Asian operations. And probably should mention that, as well, our new plants particularly in China starting to come up to speed, but again in Q4, they were not contributing at the levels that we will look for them to contribute in 2008. So, when you put everything together, kind of a perfect storm of ugliness in the Minerals segment.

The good thing is – good news, anyway, on the other side of the businesses is that they're very strong. Environmental typically has a moderate fourth quarter, but they really had a strong fourth quarter – really good numbers all the way around. The one area which might a question in on the gross profit margins for Environmental. We did see a drop of three percentage points there primarily related to the nature of the business. We've mentioned in past calls that we have a growing element of our business is in the service-related areas. And proportionately in Q4 that was a bigger part of the business, so having that impact on the gross margin. Good operating margin leverage, though, in that case. Very nice year overall.

Oilfield Service has broke through the $100 million revenue barrier with a very strong quarter, good solid numbers again up and down the line, good growth all the way across. Really, given, the different nature of the businesses that they operate in, most of them performing well. Certainly areas for improvement, but I think the overall result in the growth prospects in Oilfield continue to be very, very positive.

Other area – corporate overhead certainly an impact, as well – saw a large jump quarter-over-quarter. Part of that is there were some things last quarter – fourth quarter that were beneficial that were not there this year. In addition, higher benefits cost, a lot of personnel cost. We do have some programs ongoing. For example, a new ERP system we're installing and there's some cost associated with that and some other areas where we've got outside professionals helping us, and needless to say, that is a cost. Again, we will see improvement in those numbers as we get into 2008.

The other big impact in the quarter clearly was the tax change. I'll let Gary talk about that along with the positive news on cash and working capital.

Gary Castagna: Thanks, Larry. I will summarize our elements of the release and the financial overview section. The table that we present in the release detailing the composition of our sales growth, certainly a trending again strongly toward higher relative contribution from base businesses, and that's actually across the board. Probably our best quarter this year, actually, and the best relative contribution to organic growth there. As we say, on the Minerals side, the Asia/Pacific region continuing to be a strong contributor – volume shipments in the Metal Castings market there, as well. Solid growth in the Pet Products volumes in the U.S in the bulk side of that business. And the Specialty Materials areas such as the Health and Beauty, Detergents, as well, having higher volumes.

Mentioned in the past calls about freight revenues. Freight revenues, of course, a tag-along especially with the larger volume elements of the business. In the quarter, we didn't have the exact figure at press time, but roughly speaking about 20 percent of that Minerals segment sales growth for the quarter was attributable to pass-through of freight which, of course, is meaningful in that it has a dilutive effect on gross margins. And of course, currencies are really driven by the general trend of the weakening U.S. dollar.

Environmental, as Larry mentioned before, not only because of the service-based businesses, but again, continuing a very attractive trend in the central Eastern European-based areas of the business. Poland in particular a very strong point for that segment, as if had been for the other quarters this year. And Oilfield, again, continuing across the board in its Filtration, or now we – more internally referred to as Water Treatment side of the business, Pipeline Service levels, but (feel) very strongly Gulf of Mexico or shelf-based operations here in the U.S. is the dominant geographical market for that segment. We did see some nice pickup as well, though, in the West Africa operations there as we're starting to see that market.

Gross profit and gross margin – obviously the number one aspect in terms of (low light) for the quarter. Gross margin at 25.1 percent versus 26.8 in the prior period and certainly from a sequential basis, the lowest level this year. Larry has already mentioned some of the aspects of that, and certainly we'll take your calls and get more insight on the Minerals segment target areas for improvement. And also the product mix levels actually in both of the other segments were also a little bit below prior trend, certainly not as much on the Oilfield Services side as in the – in the Environmental side. And again, that service element of the business does have a dilutive impact to gross margins, although very attractive, still, from the overall operating margin perspective.

Selling and admin costs, again, an area really across the major reporting segments in the quarter that just really, I think if I can summarize, were sort of cumulative effects of various expense points. This is not sort of a step change move by any means in our view as to the actual operating levels of our businesses, but unfortunately it just seemed to culminate in the quarter where we had various expense projects – personnel, et cetera, that kind of came through into the fourth quarter.

Operating profit and the margin, of course, suffering a bit in terms of the relative growth compared to sales. And probably just skipping down into the income taxes to illuminate further on the remarks there, essentially what we have here is a change in the final quarter of the year of where our ultimate estimated tax liability would be at the end of 2007. And the movement is caused by the distribution of earnings between foreign-based operations versus U.S.-based operations. And as many of you know, we have a very attractive effective tax rate in our overseas operations, but in updating our profits by geographical area at year-end, we really realized, essentially because of the strong movement in the Oilfield Services business toward the end of the year, the tax jurisdictions changed and that essentially moved up the effective tax rate.

But if you look at the effective tax rate for the year, we ended at 25.5 percent which, if you go all the way back to the beginning of the year, is pretty close to where we guided everyone on that. It’s just unfortunate that we were at about a twenty-three-and-a-half percent effective tax rate going into the quarter, and you essentially have to push through the movement in the final quarter. And that push-through in a – in a accumulative effect is approximately $1.4 million of additional tax expense that we recorded in the quarter to sort of true up the tax expense.

Affiliates and Joint Ventures, again, continuing a strong trend there – no real new news there in terms of the solid contribution particularly from India. And now highlighting some of our financial position and cash flow elements of the quarter, long-term debt ended the year at 164.2 million, which is practically identical to the end of the third quarter, so we ended at 31.8 percent debt to capitalization as compared with 27.6 in the prior year. Our cash balance did pick up a little bit to 25 million. That’s essentially because of timing of movements of cash in our overseas operations as we are, obviously, having stronger profitability over there. Most of the funds we maintained invested in those overseas operations.

Working capital ended the year at 204 million. Again, almost identical to where we were actually all the way back to June. As you recall, we put a focus point on working capital management, the elements of our working capital, and we’re pleased to see some success in tempering the growth of working capital despite the strong movement on the top line of the business. And that, consequently, has resulted in probably the best statistic we had to report today in terms of our operating cash flow ending the year at $66.9 million (over) $25 million of operating cash flow actually generated in the fourth quarter, as we had targeted.

And then in terms of investing, highlights here – we ended the year actually at total capital expenditures of $53 million as compared to 42 the prior year. That is higher, I think, than what we guided in the past. However, one element to that which we had not talked about in the past is we are in the process through a initially investing in a new technical center and corporate headquarters facility in the area here that will be brought online at the tail end of 2008, but in the initial side, we are – we are outlying cash for that. But as we say here, we will be imminently looking to enter into a sale leaseback transaction for that facility such that there will be a neutral effect on our cash flow with respect to that facility in the – in the next year.

And then finally finishing on the share repurchases, we did have a modest purchase of shares in the fourth quarter. Ended the year at 260,000 shares repurchased at an average price of $24.64, and dividends ended the year at $18 million and a 22.7 percent increase over 2006. Larry?

Larry Washow: All right, William, let's open the call for questions if we could.

Operator: Absolutely. The question and answer session will be conducted electronically. 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 your mute function is turned off to allow your signal to reach our equipment. We'll proceed in the order that you signal us and take as many questions as time permits. Once again, please press star one on your touch-tone telephone, and we'll pause for just a moment to assemble our queue.

And we'll move to our first question from Rich Wesolowski, Sidoti & Company.

Rich Wesolowski: Good morning. How you guys doing?

Male: Hi, Rich.

Rich Wesolowski: Gary, can you quantify the effects of the freight revenue on Minerals for the year? I know you gave the quarter.

Gary Castagna: I believe for the year, Rich, it is in the range of around $12 million.

Rich Wesolowski: Twelve million of incremental pass-through expense?

Gary Castagna: Yes, that's right. So, out of the near $39 – $40 million of revenue increase, approximately 12 million of that for the full year is attributable to freight revenue increases.

Rich Wesolowski: Is that a pattern you expect to see in '08 – organic revenue growth accelerating at a faster clip than we saw earlier this year, margins coming down, gross profit year-over-year higher but not by much. I mean is that a fair picture for '08 in the Minerals?

Larry Washow: Rich, this is Larry. I'm not sure – we certainly expect to see continued sales growth and you expect to see margins going up, obviously, on the gross margin side as we improve the cost elements. The amount of the freight revenue impact we think will probably be a lesser impact in terms of the incremental growth in 2008 than it was in 2007, but there'll be some. So, we really look for a – I think a trending – a positive trending on the Minerals side in 2008 for sure.

Rich Wesolowski: How much visibility do you think you have in that business? I mean we read a lot of headlines, as we have for the past year or so, about deepening slide in the auto market. I mean it – what is the probability that this business is actually down profit-wise in '08?

Larry Washow: I think on an aggregate basis, I don't expect it to be down. I think there will be an unlikely possibility. Certainly we can't say, "Never," but given the fact that a bigger piece of this business is overseas, both in the European markets where we've got some interesting prospects, in Asia where we see substantial growth, the decline, which is not a surprise in the U.S. side, in fact, our Metal Casting business in Q4 certainly was down quarter-over-quarter to some degree. But again, we expect overall, when it's put together, the other elements of the Specialty business – Health and Beauty and things like that – will continue to be growing and positive. So, on an aggregate basis when it's all put together, you know, we think Minerals – the likelihood of a lower profit next – in 2008 is extremely low.

Rich Wesolowski: OK, good. I understand – moving to the Environmental margin, I understand the Contracting Service effect on it, but could you remind us what services are coming to dominate the mix elsewhere in that segment?

Gary Castagna: A lot of it relates to the installation in many cases of products that we make and typically have sold to other people who did the installation, and particularly in Europe, that's a growing segment of our business and one ((inaudible)) enables is actually to typically sell more dollars and more volume into the customers because we can install, we can bring in the full range of products – those that we produce and we also buy outside products that they need for the project, and that creates value. It tends to be, again, slightly lower margin than our regular business, but certainly provides good growth and opportunities for sales that we might not otherwise have.

Rich Wesolowski: Is this a change in how you're marketing the Landfill products, and what spurred the change?

Male: It's not really a change. In Europe, when we purchased a company over there a couple years ago in Spain, that had been the model they had built their business (with).

Rich Wesolowski: Oh, right. OK.

Male: And we followed that and that actually expanded into Poland and other places, as well.

Male: Yes, and Rich, I don't think that that's necessarily just geared toward the Landfill side, to be – to be clear on that, particularly in Poland. A number of different infrastructure projects we're actually involved with there well beyond the Landfill side and even in the Building Materials area, actually, is another one where, again, Installation Services that we can cost-effectively add on to our product offering in that case.

Rich Wesolowski: So, is the 33 percent-ish gross margin that we've seen in Environmental the last couple of quarters, is that the run rate now for '08 and '09 as you see it?

Larry Washow: It's probably in that 33 – 35 range. Really depends a lot on the mix and where the – where the markets are going, but orders of magnitude, you know, we don't expect it to be down from there at all.

Rich Wesolowski: OK, and lastly, looking at the trend in the operating margin from the acquired businesses, you started off the year like a rocket – 16 and 20 percent, and then it's come back to the 11 to 12 percent range in the back half. What changed there? Are these living up to your expectations? What stands out as far as plusses and minuses in the businesses you acquired last year?

Larry Washow: I think it's a – it's a combination of the different businesses having an impact. The latest acquisition in Turkey – Minerals business that we knew – we know needs work and we are working on it. Certainly doesn't deliver the margins that the rest of our businesses do. It will over time for sure, but we think that's going to be one of those situations where long-term it's going to be a great business, short-term it's not delivering the same kind of margins we have. But that's probably been the primary one acquisition-wise that – and actually it is doing what we thought it would do, but on a relative basis when you throw it into the acquisition mix, it does suppress the numbers.

Gary Castagna: One other point there, Rich, just to make sure. Because of this being a quarterly report and the way it is, wanted to remind you, too, that some of these acquisitions reached their one-year anniversary.

Rich Wesolowski: Right.

Gary Castagna: So, they no longer are classified an acquisition in terms of their contribution. And in the fourth quarter, for the most part, the two acquisitions related to the Oilfield Service areas would not have been accounted for as acquisitions.

Rich Wesolowski: So, those high-margin businesses dropped …

Gary Castagna: Those were – those were higher-margin contributors …

Rich Wesolowski: OK, and Larry, just to clarify, that's the (Unimin Custom Mix) acquisition that you were speaking of?

Larry Washow: I was talking about our acquisition in Turkey.

Gary Castagna: Yes, that one, Rich, would also actually have reverted to being a organic in the fourth quarter because we acquired in on the first of October of '06. So, the fourth quarter for the additional Metal Casting Plants actually would not have been in with respect to Larry's comment there.

Larry Washow: Right.

Rich Wesolowski: OK, great. Thank you.

Gary Castagna: Thank you.

Operator: And we'll move to our next question from Jay Harris, Goldsmith & Harris.

Jay Harris: Morning, guys.

Male: Hi, Jay.

Jay Harris: Just to follow up on that last item, the – what businesses contributed this $12.6 million of acquired revenues in the fourth quarter?

Gary Castagna: It would be for – the full effect would be Turkey, the Health and Beauty acquisition and…

Jay Harris: But you said Turkey was no longer in that category I thought.

Gary Castagna: No, no, (the cost) of the Metal Castings acquisition, Al, that …

Jay Harris: Oh.

Gary Castagna: … or, Jay, that was done in the previous year.

Larry Washow: Yes, the U.S. Metal Casting operations we bought fell off as …

Gary Castagna: We call (them Custom Mix) plants.

Larry Washow: Right.

Gary Castagna: And the acquisition in the Environmental segment that we completed in January of '07, so …

Jay Harris: All right.

Gary Castagna: … because of the …

Jay Harris: Is there anything in the – in these contributors to this 12.6 million that's seasonal? Are any of these businesses seasonal in nature?

Gary Castagna: The Environmental – the Environmental business would probably have a bit more seasonality behind it.

Jay Harris: And what are the weak seasons for that – for the – just the acquired business?

Gary Castagna: Well, that, you know, if you look at it in general, that would be the only one of the businesses. I guess Turkey could possibly because there is some up-and-down in terms of the season there. But for the most part, you're probably only talking 25 percent of so of that 12 million or so that I would call affected by seasonality.

Jay Harris: And the winter season would be the weak season?

Larry Washow: Correct, correct.

Gary Castagna: Yes.

Jay Harris: How much revenue – what was he revenue decline in Metal Casting in '07 versus '06?

Larry Washow: I haven't got the number right in front of me, Jay, but it certainly – we did see a decline and …

Gary Castagna: Yes, I don't – if I extract out the acquisition effect, Jay, I actually think that that number isn't – isn't startling. I'd be surprised if it was more then 10 percent, to be honest with you …

Jay Harris: I was looking for a …

Gary Castagna: … domestic Metal Casting. I mean you've got – we also, because we look at these as global in terms of the product …

Jay Harris: Well, at the beginning of the year I think on a conference call, you indicated you were looking for a decline in Metal Castings, and I've forgotten the number.

Gary Castagna: It was double-digits, I mean, and I think that's probably realistic maybe …

Jay Harris: And so this number is larger than the one you were looking for at the beginning of the year, obviously.

Larry Washow: Not really. I think we're about on track in the Metal Casting decline.

Jay Harris: All right.

Gary Castagna: Yes, domestic Metal Castings, definitely.

Larry Washow: We were probably looking in the range of 10 to 15 percent, I believe, Jay, is when we …

Jay Harris: All right.

Larry Washow: And that's …

Jay Harris: What should we be looking for – that – I'm sorry. That was 10 to 15 percent of U.S. or worldwide?

Gary Castagna: U.S. U.S.

Larry Washow: U.S. Just U.S., right.

Larry Washow: Asia/Pacific is obviously growing.

Jay Harris: Growing – all right. What kind of tax rate should we look for in '08?

Larry Washow: I believe that we're still in the – where we ended – the 20 …

Jay Harris: Twenty-five – twenty-six percent?

Larry Washow: … (26) percent is a representative rate as we speak now. I believe that, knowing where we are with our earnings forecasts and (everything) …

Jay Harris: And if your plans work out, what kind of a range do you look for in terms of gross profits for the company as a whole in '08?

Larry Washow: … we …

Jay Harris: Gross profit margin, I mean.

Larry Washow: … yes, we should certainly see a little improvement, I think, over '07 as we see improvement in the minerals. We talked about environmental gross margins in that, you know, 33 – 35 percent range, Oilfield Services kind of in that 38 percent range. Those should hang in there. The improvement will really come from Minerals, so, depending on how …

Jay Harris: So, on average, maybe one to two percentage points?

Larry Washow: … yes, given the …

Jay Harris: (Go) from 26 to 27.5 or something like that?

Larry Washow: Over the course of the year, that's probably realistic.

Gary Castagna: Well, we were running, you know, through September, Jay, I mean in excess of 26 percent to 27 percent.

Jay Harris: Right, right.

Gary Castagna: … was moving along, especially with the higher growth segments and their relative margins and that, you know, if you look at just even at a constant ratio, you should be starting there. And obviously we still have some what we believe good growth prospects in the Environmental as well as Oilfield that should continue to, by virtue of the math, move the …

Jay Harris: So, does that make your first quarter the most difficult quarter for you?

Larry Washow: It typically is because of the, you know, the weather impact on the Environmental business, so – and the cost impact on the Minerals side when you're doing all the mining and things in the winter. So yes, the first quarter will – it historically has been our most challenging one.

Jay Harris: All right. I have – I have a – sort of a strategic question to put to you guys. It's if you – if you look at the Minerals segment during the decade of the '90s, it was highly cyclical. And during this decade, you've diversified in terms of globalizing a lot of your businesses, getting into oil and gas. On a thematic basis, are there things you're working on that could have somewhat of a similar impact over the next five years that we don't see today?

Larry Washow: We certainly continue to look for kind of big impact businesses that logically fit with what we're doing, and there are some prospects out there – there always are – that could be interesting – nothing anywhere near a fruition stage at this stage of the game, but, yes, I think the, if I understand the question right, Jay, we really do look for those opportunities that are going to have an impact over a horizon that we look at, which is obviously more than quarter-over-quarter. We do look at a multi-year horizon, and I think there are some things out there that could come to fruition over the next year or two.

Jay Harris: But nothing that's incubating at this point that you could mention?

Larry Washow: Nothing we could mention at this stage, no.

Jay Harris: All right.

Larry Washow: Incubating, I think, is, you know, we're always trying to incubate new ideas, of course, and you get – you hope one of those ends up being a game changer. But I think the other part that's pretty important for us is continuing to invest in overseas and international markets. And there's definitely strategic markets out there that we want to and have opportunities to get ourselves further into, and those are probably more where we'll see the movement for the company.

Jay Harris: All right, thank you.

Larry Washow: Thanks, Jay.

Operator: And we'll move to our next question from Al Kaschalk, Wedbush Morgan.

Al Kaschalk: Morning, Larry. Good morning, Gary.

Male: Morning.

Al Kaschalk: Just to follow up on the capital expenditure, how much is going international versus North America? And with that, have you seen anything near-term that would put damper on spending that in the next 12 to 18 months in terms of outlook?

Gary Castagna: In terms of the composition, Al, I have not had an opportunity to get right into the detail of it, but I would say of the – of this year that you probably have – I would say 60 to 70 percent of that money is still U.S. and mainly because of the energy area, we definitely when we – when we get this compiled for the 10-K, we'll have had a pretty sizeable year in terms of investment for equipment and infrastructure for the

Oilfield Service area.

And last year, we only spent – I think it was just over $4 million of capital. This number is going to be, when it adds into this year, be significantly higher than that. That's for the most part North America. We can move that equipment around to use in international markets, but you count that into the overall mix of where it's spent, it's probably still 60 percent or so U.S.

And in terms of the outlook …

Larry Washow: Yes, I think – I think if you were, you know, really just finishing up a couple of big projects in Asia with our plan in China and expansion in Thailand, we have some other ideas for things we want to do over there that are some months away from fruition, we'll be expanding the Turkish operation we bought so there's ((inaudible)) going to be expenditures outside the U.S. But if you look at the aggregate magnitude, I would think that that number in the, you know, $40 to $45 million range is probably a good number to look at for 2008.

Al Kaschalk: And – what – majority of that, though, 60 percent is Maintenance type cap ex or is it a little bit of both 50 percent …

Larry Washow: It's a little bit of both. I mean there are – there's a lot of spending we're doing for productivity and effectively expanding our capacity, as well, albeit not by building new plants – more from kind of operational improvement issues. So, there's certainly ((inaudible)) that's Maintenance cap ex, there's (new expanding), as I said, in Asia and Europe, and some new things in the U.S., as well.

Al Kaschalk: One of the main contributors certainly internationally not to focus too specifically on one particular project, but with the Beijing Olympics, you're certainly see from benefit from that. Are there any projects, Larry, as you look out here that – in '08 that are either winding up or could be forthcoming that could be beneficial?

Larry Washow: Yes, you mentioned the Beijing Olympics, but certainly most of that work is done.

Al Kaschalk: Yes.

Larry Washow: That was certainly a benefit for us. But obviously China from an infrastructure standpoint is nowhere near done, so there's just tremendous opportunities continuing. There were some specific projects related to the Olympics that were nice to – nice to run through, but I don't – I don't think we'll see, you know, substantial decline in our business over there, at all. In fact, it's just going to continue to grow, given what China has to do.

I think we see similar opportunities developing, albeit in different ways, in India. Interestingly on the Olympics, we were at this meeting recently with some of the people related to the London Olympics coming in 2012 – tremendous amount of work they have to do there and lots of our products may well be applicable to some of the issues they have to address.

So, I think, you know, you look at those big opportunities, they're always out there somewhere, and for us when we look at India and China together, we think there's just tremendous opportunities across the board for almost all of our products.

Al Kaschalk: And then if we would just switch over to what is I guess the main topic for the quarter here in more of a macro discussion, I guess, mining costs over the last couple years are – appear to be creeping up. I'm wondering if you could comment on that. And what – maybe a little bit more meat around how we're going to get towards this longer-term target of 20 percent margins in the Minerals segment in particular on the growth side.

Larry Washow: Sure. Yes, the mining costs – no question, you're right, Al, they have crept up over the last couple years. A little bit of that, quite frankly, given the rapid volume growth, we were – we were scrambling a little bit more than we should have had to do. You know, now that we – we're kind of better positioned to sort of predict where we're going to be on the volumes, we've got a better plan laid out to address the mining costs. The fuel costs are up. There's no question about it. So, whenever you're hauling material around as bulky as ours is, you're going to spend money on fuel.

I don't think we're going to have any impact on the fuel price, so that – that's a continuing issue and a higher cost. What we've done historically is really do a balance of mining areas that are close to the plant and farther away, and use the blended cost as kind of our mineral cost, which helps kind of balance some of the increased cost as you – as you have to mine farther away. In the last couple years, we haven't done as much of that as we normally do in part because we had to, as I said, scramble and get enough material in.

For 2008, I think we're going to position ourselves much better in terms of the planning so as we go through the year, the mining cost, again, the fuel relationship, that'll – that probably won't change. But I think in terms of our efficiency in mining and our costs overall, we're going to be able to stabilize it. I'm not going to tell you we'll see dramatic reductions in costs in that area because you're dealing with heavy equipment and fuel and time and moving a lot of material, but I think we could do a much better job and be more efficient going forward than we have been in the last couple years.

Al Kaschalk: OK. And then just on the efficiency standpoint or having enough material available, is it a question of the – of the quality of the clay or is it a function that demand was so strong, it arguably caught you off a little bit in terms of planning …

Larry Washow: Certainly we really saw the movement start to move up a couple years ago in the Pet Products. That is a business we've been in forever and did not really anticipate the rate of growth that was going to come into that. That's a different material typically than we use for some other markets, so we did have to do a little balancing act and juggling around to get the right qualities, but they're all there. Not a question of quality or quantity; it's just getting the planning right so we've got the right materials in place.

Al Kaschalk: All right. Thanks a lot.

Larry Washow: Thank you.

Gary Castagna: Thanks, Al.

Operator: And again as a reminder, please press star one to ask a question. We'll move to our next question from Rich Wesolowski, Sidoti & Company.

Rich Wesolowski: Thanks. Considering the, you know, evolving macro and demand environment, your balance sheet stock price, et cetera. Can you review the capital allocation strategy for '08?

Male: Allocations in terms of …

Rich Wesolowski: In terms of where, you know, you (aim) to invest. I mean it's the stock at $26 here. Does that have you looking at your Board authorization, of which I'm not sure what it is and maybe enlarging it or at least using it up versus buying more companies versus, you know, spending that ($40 to $50) million in cap ex?

Larry Washow: I think we're, you know, certainly from a – availability of funding standpoint, we're good to do all of the above. Obviously we are pretty opportunistic when we look at the stock price. I think we still have $9 million left on our authorization, and that's something we'll see what happens over the next couple days and we're not – not shy about addressing that or going into that market.

In terms of the capital, those – the way we do capital projects have to create the right internal rate of return, and if they're just justified and make sense and create value for us in the areas we want, we do them. So, I don't – I wouldn't see any reduction, Rich, in the capital spending itself. Our dividend policy has been pretty consistent over the years and I think it will be again, so as the earnings increase, we'll see the dividends increase, as well. But again, I don't see any issues in terms of concerns about generating cash to do that.

Gary Castagna: Yes, I think that the stock price or our how it is in the whole stock repurchase plan is sort of the residual as to where we stand with ideas of growing the company and ((inaudible)) investments back in the business. And obviously our financing capabilities to do that are more than adequate at this point. So, the ability to, let's say, reallocate the capital, given, let's say, where the internal value of the company is at this point is obviously something you'll always consider and we try to do from time to time, but it doesn't lead us into a different direction.

Rich Wesolowski: Is it possible that we see another 55 million bucks of acquired revenue in '08?

Gary Castagna: Acquisitions-wise? Well, number of different target areas are out there. No doubt about that. I'd say from my perspective it's unprecedented in terms of us spending over – what – six, seven businesses $100 million in a year in acquiring in that type of revenue. But I think it all depends on where the circumstances are and the prospects behind them. But certainly we have the financing capability and we will do it.

Larry Washow: Yes, we continue to look, Rich, at opportunities that, if they really make a lot of sense, we do them. We are – we're certainly very critical about it. You know, there's lot more out there that we could be buying that we don't buy because it really doesn't fit strategically with what we want to do. We really like to focus on – even on the businesses we purchased in the last couple years that are now part of our organic growth, making sure that that continues to develop and expand on a regular basis. So, it really is a combination, and we – it's hard to predict what we will find that really is a good fit this year. But we are out there looking.

Gary Castagna: Yes, but it doesn't take the focus off of knowing what we have to do right now …

Male: Right.

Gary Castagna: … internally and you could get distracted, so we're not – we're not going to do that.

Rich Wesolowski: Well, now that, you know, the economy seems to have turned over at least in the U.S., do you get a lot more companies knocking on your door – maybe ones that you had scouted previously, multiple was too high, you know, looking at the outlook for their businesses and saying, "Maybe this is a good time to sell?"

Larry Washow: There's a little bit of that, I think. You know, there are certainly some opportunities that come across when you look at the economy the way it is. But I don't know that we've seen a big surge of that, quite frankly.

Rich Wesolowski: OK, thanks a lot.

Larry Washow: Thank you.

Operator: And as a final reminder, please press star one to ask a question. We'll take our next question from Al Kaschalk, Wedbush Morgan.

Al Kaschalk: Hi, Larry. Just one question I wanted to follow-up on and partly more of a comment or an observation, and hopefully you'll comment or respond.

Larry Washow: OK.

Al Kaschalk: In terms of the quarter, I think it was up 20 – 25 percent revenue top line, but operating income wasn't – didn't quite hit the double-digit line. And so as you're looking at '08 and '09, it would seem to me that focusing more internally on the Minerals business and trying to regain that health would be a, you know, a key area to be focused on. And I was just wondering if you had any observations on that or comments.

Larry Washow: I certainly don't disagree with that at all. That's an absolutely correct observation and one that we made some months ago, quite frankly, and have employed some people, some outside services and things that are helping us get to the stage that we know we can and should be at. Clearly we didn't see the impact of that in Q4.

I think certainly as we get into 2008, you're going to see the benefit of that, but there's an absolute clear focus and a very specific set of targets, objectives, and goals that are defined, as well as the process and the method to get there that is going to provide improvement in our Minerals business because this quarter was certainly not acceptable in my mind.

Al Kaschalk: Great. Thanks a lot for taking my question.

Larry Washow: Thank you.

Operator: And we have no other questions at this time.

Larry Washow: OK. Thank you for joining the call and look forward to a good result when we can talk about it in Q1. Thank you.

Operator: And that concludes our conference for today. We thank you for your attendance, and have a nice day.

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