Q4 2009 Conference Call

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

Analysts
Jay Harris; Goldsmith and Harris; Analyst
Al Kaschalk; Wedbush Securities; Analyst
Nat Kellogg; Next Generation Equity Research; Analyst
Andrew Nelson; Nelson & Associates; Analyst;
Todd Vencil; Davenport & Company; Analyst
Rich Wesolowski; Sidoti & Company; Analyst

Operator: Hello, ladies and gentlemen, and welcome to AMCOL's Fourth Quarter Results conference call. Today's conference is being recorded.

Joining us today are Mr. Larry Washow, President and CEO and Mr. Don Pearson, Vice President and CFO. I would now like to turn the call over to Mr. Larry Washow. Please go ahead, sir.

Larry Washow: Thank you and good morning everybody. Welcome to the wrap up of 2009. It's been a long, interesting year, kind of good to get it behind us but there is a good bit to talk about relative to the quarter and what that bodes as we see it now for 2010.

So let's get into it. I guess we would describe the results overall for the quarter okay, obviously some positive news in there, but also some challenging areas that we'll talk about. Minerals Q4 overall revenue was better than Q3, which quite frankly on a sequential basis is a surprise, as Q4 tends to be a little bit softer with the holidays, foundry shut downs and things like that -- so that was an encouraging note on the revenue side.

Gross margins on a reported basis up a tad from Q3 sequentially, but again we did have a write off of some assets in Q3 so flat to down - just a touch. But I think the important measure there if you look year over year, the gross margin in minerals definitely heading the right way and we look for continued improvement throughout the course of 2010.

For the quarter itself, the last time we talked I mentioned that the Cash For Clunkers Program was interesting and it did have a benefit but wasn't sustainable. It looks like in Q4 and you have undoubtedly seen the automotive sales numbers -- people are still buying cars, not at the rate of before, but pretty solid business levels and we saw that in the metalcasting area in Q4.

Additionally the Asian business has been strong. You read about China and the activity level there is very real or at least it was in Q4. Automobile sales there being very strong and the overall business environment is solid, so that was a benefit. Our European Minerals business as we mentioned in the past is primarily a consumer related business, so that tends to be a little less volatile than some of our industrial markets.

Europe ended up the year in very good shape. So overall Minerals, when I look forward into 2010, I think we do see some positive momentum going in. I don't expect a giant jump or a big rebound, but it would appear based on a relative basis, slower declines quarter over quarter and more activity, that we would expect to see the Minerals segment continue to improve as we get into 2010.

Our Environmental segment fourth quarter is always a bit of a surprise. You never quite know how it's going to come out because of the weather impacts and project activity, but it actually turned out very well. Sales were down probably the lowest percentage on a comparable basis year over year, still at $50 million in revenue for the quarter.

Operating profit just about in line with the end fourth quarter in 2008, so we were encouraged with that. Europe wrapped up with a very good year overall. The US was slow, as we have talked about particularly in commercial construction.

One of the bright spots we expect for 2010, that was not there in 2009, is our Contracting Services group. This is a business we bought a few years ago, really initially focused in the northeast part of the US. Didn't have a material impact on 2009 but we have expanded that in terms of the team and the scope. We now have some global capabilities and a lot of people around the world that are looking at some very interesting projects and our expectation is that that Contracting Services element will be a real part of the Environmental segment coming back and having a stronger 2010 than 2009.

Now the downer for the quarter clearly is Oilfield Services - revenue down, gross profit down, just about every service that we sell reported in lower in Q4. Now one element of that, that I mentioned, was the late season hurricane and that slowed down the activity in the Gulf for about a week. As we are finding, it's kind of difficult to forecast exactly where the activity level is going to land. The metrics that we look at going into 2010 are somewhat positive in a few cases.

Certainly oil for example last year at this time was around 40. This year it's around $80 a barrel. So if that is relevant to the off shore activity, which clearly it is, we would expect to see some projects coming around and being more focused this year than we did last year.

Natural gas a bit dicier - it is a little higher priced today than it was a year ago but given the supply level, the shale plays where there is so much production, I think there is a lot of caution there in terms of what the activity level will be related to natural gas.

But overall I think it's safe to say we are getting more inquiries. We're seeing activity pick up a little bit. And our focus on the international side continues to go and clearly that has got to be one of the strong elements if we're going to see improvement in 2010.

Brazil is a very good market for us, Nigeria, Malaysia, but combined they only represent 10 to 12% of the revenue for Oilfield Services, so we are looking to continue to focus on those international markets as well as increased activity in the US. But it was a very disappointing quarter in Oilfield Services.

When we started 2009, we said it was the year of the balance sheet and it certainly was. I think we made some really good progress. Don will talk about that in just a minute. But I do want to make the point that in 2010 we will continue to focus on the balance sheet.

And while I don't expect the types of improvements in things like inventory, I doubt that we have another $30 million we can take out of inventory. But the whole team will continue to ensure that we're watching receivables and inventories, the working capital side and maximizing cash generation, which was very positive for 2009. So with that, Don, I'll let you cover the balance sheet info.

Don Pearson: Okay. Great. Thanks Larry. A couple points I want to make on the income statement - first of all, in the fourth quarter you'll note really no impact on the foreign currency.

So that's where we would translate other functional currencies into the US dollar. Things like that stabilized whereas on a full year basis translation of foreign currencies had about - it was about 24% of our revenue decline. So it appears that the dollar stabilizing will help us at least in this quarter and it appears to be stabilizing.

The other net line item that includes foreign currency transaction - gains and losses. So in the prior year quarter we had a large loss on the Australian dollar. In the current quarter 2009, the 1.5 gain is a sale of some shares we made on Ashapura and additional currency gains there.

Income tax expense - for the nine months of the year we ended at an effective tax rate of about 20%. In the fourth quarter, because of where the income was earned, particularly no profit in Oilfield, which is generally a higher tax jurisdiction, and the settlement of some old IRS audits, we had some benefits -- that when you do the math and try to effectively have to put the year to date's effective rate at 16% plus the benefit, we ended up with the $900,000 benefit there.

So going forward into 2010 if business normalized we would expect to get back to an effective tax rate in the mid-20s and we'll comment on that each quarter. The income from the affiliates and joint ventures, again there's an improvement there.

Last year of course, was the impact from Ashapura - this quarter essentially just a rebound in most of our joint venture activities.

Moving to the balance sheet, we have been talking about working capital management throughout the year, so you'll see that reflected in the lower account receivables and inventories.

Again, this is an area of focus that we'll have going forward, as volumes pick up we'll probably see an increase in the number. But ideally we're focusing on the performance so higher inventory turns, lower receivables per dollar of revenue sold.

I want to point out with the sale of some of the shares of Ashapura, we are now below 20%. So the accounting for Ashapura changes and it's now accounted for as available for sale securities. You'll see a line item there in other assets of $25 million. That represents the fair market value of the Ashapura sale. So we now account for that on a mark to market basis. Any fluctuations in that will go through the equity section and the other comprehensive income. If you look down below there you'll see a $37 million balance. Twenty five million of that is from Ashapura, marking that to market because, if you'll recall last year, we wrote off Ashapura's investment in its entirety.

The remaining of that amount in other comprehensive income is principally financial or foreign currency. And then lastly on the balance sheet, just to point out again the $50 million reduction in the long-term debt so we are de-levered. We're quite comfortable with our leverage ratio at this point.

Moving to the cash flow, I'll just highlight the cash provided by operating activities, $122 million for the full year versus $18 million last year again driven by the improvement in working capital.

Capital expenditures for the year of $50 million, about $15 million of that was the purchase of the South African mine, which occurred in the first quarter. There is 4 or $5 million or so that was South Africa building the new plant. Looking towards 2010 we'll probably see CAPEX in the 45 to $50 million range, but $10 million of that is going to be South Africa.

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

Larry Washow: Okay Matt, why don't we open up the line for questions?

Operator: Okay. Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit 1 on your touchtone telephone. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star 1 for a question or comment. And we'll pause for just a moment to assemble the queue.

And we do have some questions queued up. First question will be from Todd Vencil with Davenport & Company. Please go ahead.

Todd Vencil: Thanks. Good morning guys.

Larry Washow: Good morning.

Don Pearson: Good morning.

Todd Vencil: I've got a handful of questions. Let's start from kind of 50,000 feet and thinking about 2010. Larry, I appreciated your comments. You said things have sort of finished the year pretty well and looked like they were going to, I think you probably said, continue to improve through 2010.

In terms of the top line, if we think about the year over year comparisons, we were down again in the fourth quarter. We have been down three quarters now in Oilfield and four in Minerals and five in the Environmental business on the top line.

I mean, as you sort of look out over the year, and I'm not trying to pin you down on it, but when do, you think we might see those comps get easy enough and the gross sort of pile up to the point where we're going to be back growing on a year over year basis? How do you think about that?

Larry Washow: It's tough to pinpoint the exact time Todd. But I think if we just look at Q4, I mean the Environmental segment, which you noted has been down several quarters in a row, our revenue is down 10%, which I think is the lowest comp that we have had in quite some time.

Todd Vencil: Right.

Larry Washow: As we get into 2010 we're definitely going to get into some easier comps from 2009. So I would expect whether it's Q1 or Q2 and Environmental is probably a more difficult one because of the volatility in the activity.

Minerals, we are seeing pretty solid business levels all over. Now to get back to where we were in total, I'm not sure we'll do that in Q1. But I do believe as we get through the course of the year we'll definitely see those numbers kind of match up to where they were in 2009.

And remember obviously 2009 was well off 2008. So overall, by the time 2010 is done, our expectation is we'll be back on a growth track. The magnitude of that is really going to be dependent I think on really how robust the US recovery is.

If you look at some of the data in our product lines, Q4 was kind of interesting because Metalcasting is very similar in terms of the revenue quarter over quarter but the Basic Minerals - and a lot of that is iron ore pelletizing for steel and drilling for oil and gas - was way down from last year.

Those two markets have yet to really show any significant rebound. We do see rig count nudging up month by month but the steel business, while it looks like it will be a bit stronger this year, I haven't gotten strong indications that it's going to come back in a big way.

So those are some of the variables we need to look at. Commercial construction won't be back so if our other Lining Tech related business does well, I think we'll be stable on the Building Materials side -- but Lining Tech is really going to have to be the driver there.

And there are some very interesting projects going on in the Construction Services, I mentioned as well. So in those two --I think it's a bit easier.

Oilfield Services really depends on what the customers ultimately decide to do. And we have definitely seen a greater level of activity internationally than we have in the Gulf of Mexico.

But with $80 a barrel and sort of seemingly settling around that range, I think we'll see a pick up there as well. Whether we get back to the comps of last year, my suspicion is Oilfield Services will probably be the last one to beat the comps from the previous year.

Todd Vencil: Okay. Thanks for that. I appreciate that. And then I don't think I heard enough - I don't think I missed it but I apologize if I did. I mean can you guys kind of put numbers around the impact of the hurricane on the Oilfield business in the quarter?

Larry Washow: Don't have hard numbers in front of me. Was about seven days where basically you're not generating any revenue. So if you look at, you figure that we're pretty much out there 24/7.

It slows down a bit for the holidays so if there are 85-odd days in the quarter we lost seven and 90% of our business is in the Gulf of Mexico. So a meaningful impact - it wouldn't have made a great quarter but it would have been a better quarter for sure had the hurricane not come in.

Todd Vencil: If you think about margin percentage versus the year ago I think it was 500 plus BPs that we were down. I mean was a big chunk of that the impact from the storm?

Larry Washow: Some of it was, but quite frankly the level of activity dropping off has made all the services more competitive. So the day rates are down pretty much across the board whether it's Coil Tubing, Nitrogen, Filtration - you name it.

There is competition for the services we provide and when there is less business out there everybody sharpens the pencil. So the bigger impact I think on margins is related to the lower day rates for the different services. The hurricane didn't help. But again I think we would have seen the GP come down some even without the hurricanes.

Todd Vencil: Got it. So to kind of tie all that together, last quarter I think you said this business was kind of a low 30s margin anyway. I mean is that maybe subject to temporary revision given the decline in the day rates and where we are in activity for 2010?

Larry Washow: Yes. I mean certainly looking at Q4 we're a long way from 30. But I think over time in a normalized environment where the activity levels are back to where we are seeing the utilization rates where they were a year and a half ago, then that 30s plus is very, very doable or better.

But that is going to be a quarter or two or who knows really exactly when we'll get back to that? We are seeing the rates now jump. We're like the other service companies trying to get back to where it makes sense for some of the jobs we're doing.

And there is a bit more activity so I think we are starting to see that move up. Not sure we'll get into the 30s right away but I certainly would expect to be there before year end.

Todd Vencil: Got it. On the Ashapura -- I guess share sale, was that just an open market sale of shares?

Larry Washow: Yes. We did go through the open market. The other owner ended up buying the shares as a block.

Todd Vencil: Okay.

Larry Washow: We did - it was kind of -- but an open transaction, yes.

Todd Vencil: Okay. So I talked I guess to Gary and to Don just over time about the possibility of maybe putting those shares back into the company at some point, and what you could do to maybe just swap that for some control of the joint venture or what have you and emphasizing that we were just talking about things that could potentially happen that nobody was sort of giving me an indication that this was imminent or anything like that.

Is that kind of - does this sort of represent maybe the idea that you guys are now not interested in pursuing that at this point or is it not viable? I mean how should I think about that?

Larry Washow: Obviously from our standpoint what's really interesting there is the bentonite business.

Todd Vencil: Right.

Larry Washow: And what's happened over the years with Ashapura is they have expanded into bauxite, which has come back now in terms of their ability to ship and sell bauxite plus a whole lot of other minerals and other places that we don't think really mesh very well with what we want to do.

The businesses that are there that we like, we still have a 50/50 joint venture and our metal business and the bleaching earth business, which uses bentonite for clarification of edible oil - very good businesses. And we'd like, if anything we'd like a greater share in those.

And that still is something we would consider if we could get better control over bentonite related assets. That would be for us a great swap of stock in the overall company to more specific assets that are related to the areas we're primarily interested in.

Whether or not we'll ever get that done I don't know. But in fact that certainly strategically would be a nice outcome.

Todd Vencil: Okay. Good. And then final question and I'll just jump back into queue but on the Minerals side, margins were a bit below where they were in the third quarter but still nice.

I mean is that a mix shift? I mean you have talked about some of the more basic minerals and what's been going on there. But I mean should we look at that as mix or has there been a cost shift there?

Larry Washow: No. I think it's primarily mix and kind of the balance of where the volume is and where it's going. And I think we're going to see that continue to trend into the mid-20s.

We almost got there last quarter absent the write-off. We'll be back in that range this year for sure.

Todd Vencil: Okay. Thanks a lot.

Larry Washow: Thank you.

Operator: And the next question will be from Al Kaschalk with Wedbush Securities. Please go ahead.

Al Kaschalk: Good morning guys.

Larry Washow: Good morning Al.

Don Pearson: Hey Al.

Al Kaschalk: Just a follow up on the Oilfield Service question, if I could ask maybe a little bit differently. If the way I understand it, there's a fair amount of fixed cost in the business and with the quarter showing pretty low profit and the commentary about the outlook, should we think the margin profile should remain similar to Q4 particularly on the operating side?

Larry Washow: Yes. Operating margins are obviously low. I think if we look at gross margins to get back into the 30s, as I mentioned is going to take some time.

I would like to believe and I can't guarantee, but I would like to believe that Q4 is sort of the bottom of the gross margin percentage and we'll see that if not move up sharply over the next couple of quarters at least begin to nudge up solidly in Q1 and Q2.

But it'll take a little time to get back to the 30s -- from that then we should really see operating - operating profit is relevant. It's kind of a break even quarter, which is well off of anything we have ever seen in that group. And with just a little more activity I think they turn around and begin to contribute more than 1%.

And again, it'll take a while to get back to the 15% operating that they should be at. But I'm hoping the fourth quarter is kind of a low watermark.

Al Kaschalk: That's how it should be, gradual over 2010 is what I think we should take your comment as?

Larry Washow: That's right, Al, yes. It's not going to be 30 in Q1. It just takes time to begin to pick up the activity levels and get the revenue going and kind of reinforce that the business is solidly back across all the different product lines.

Al Kaschalk: Would you say your visibility and maybe confidence level Larry, in this business has stabilized from relative to when you entered into Q4? Or are we still like you said not seeing the purses open up on the capital expenditures and activities?

Larry Washow: Yes, it's hard to see. And as you guys do, we look at the other Oilfield Service companies when they announce earnings and I think the stories we will see and hear are similar to ours in that it was kind of a slow quarter all the way around.

But there is activity beginning to occur. And how quickly that translates into revenue I don't know. I mean the overall perspective for the Oilfield Service business, this is a cyclical business. There is not question about it. We knew it from the first day we got into it.

Much like our drilling related business on the bentonite side, which is cyclical, it's coming off what we think is somewhere near the bottom of the trough. How quickly that slope is or how steep it is to get back up to kind of a normalized operating rate, time will tell.

But we do think that it will begin, then gradual incline and the slope is hard to call out. I think we'll see improvement for sure. But like I said, to get back to 30%, it would be nice to think we can get there yet this year, but it really will just depend on the nature of the demand for the services and where we're successful, how we expand the business and how the markets really begin to look for these services to be provided.

Al Kaschalk: If I may switch over to the chrome sand business in South Africa, it seems that's setting up for 2011.

But in the short term here, could you just update us on where you're at on timing, where you plan to be from an output perspective targeting by the end of 2010 and I assume the firming of the end market for that product?

Larry Washow: Okay. The schedule is really very much as it has been. The plant should be complete mechanically and begin to operate in Q2. We should begin to see some market response in terms of actual revenue and sales in Q3.

It's a 100,000 ton capacity plant and we would expect certainly by year end it would be approaching something like half of that rate if the demand from the market is there. Everything we have seen over the last few months, and we're obviously talking with customers today and everyday, is that the demand is good.

Now it's certainly down a bit from where it was, but overall I think we're pretty encouraged that we are seeing fairly stabilized demand from the heavy steel casting marketplace, down a bit from its peak definitely -- but at least from the customer side we're getting good response.

So we think to be approaching a meaningful capacity number - at 40% plus range anyway, by year end as a running rate should be achievable.

Al Kaschalk: And at that rate would you say that you are contributing on an operating income basis to the company? Or do you need to get that a little bit higher in the run rate business?

Larry Washow: I think at that rate we should be pretty close to contributing – it should be a positive. Again, we don't model in a big impact in 2010. It should be some small positives as we get towards the end of the year. But as you point out early on, 2011 is when we'll see the big benefits.

Al Kaschalk: Okay. And then finally if I may just on the Environmental opportunities, it would seem to me on your prepared segment comments for that segment if you can get a little bit above flat on the top line margins should be okay.

But it sounds like you have some interesting Middle East and China developments that maybe you could touch on further in terms of your visibility to land these contracts?

Larry Washow: The Middle East is a market we really were not in -- in an active way until 2009. And we were pretty pleased with what we saw there. Obviously the Middle East has got its own issues right now in terms of commercial construction.

But there is activity there and we think we'll share in some of that again in 2010. There are more interesting projects, and they're all over - they're not just China. In fact, I don't think we have many big ones in China that we're looking at for Contracting Services.

There are some in Europe, there are some in the US, some in Canada, and some in South America that we're taking a look at not just being the raw materials supplier but being a part of the whole process when it comes to the design, specifications and installation.

This is a business that we have been establishing primarily in the US over the last few years -- towards the end of 2009 very actively now, and really pushing to establish it on an international basis. So I do think we're going to see some meaningful revenue come out of that.

And it tends to be a pretty good margin business, not necessarily as good as the basic Environmental business. But the contracting side, if we are successful in landing some of these projects, they tend to be pretty big numbers sometimes. That will have an impact on our Environmental results in a hurry.

Al Kaschalk: Did you acquire some personnel or specific contractor assets there? Or what's providing some of that credibility into the marketplace, Larry?

Larry Washow: Yes. We have expanded our team, Al, and brought in guys that have been doing this type of work in Europe for example, and doing it for quite some time. And they now work for us and with us.

Our guys in the US who have international experience have been out there as well. So the combination - we have got some pretty good visibility and recognition in terms of the market for these Environmental projects and Remediation type projects. And we're really working hard to ramp up that visibility and that market penetration.

Al Kaschalk: Thank you very much.

Larry Washow: Thank you.

Operator: The next question will be from Rich Wesolowski with Sidoti & Company. Please go ahead.

Rich Wesolowski: Thanks. Good morning.

Larry Washow: Good morning Rich.

Rich Wesolowski: One last, one hopefully or maybe not, on the Oilfield margin - you did about the same revenue in this quarter that was booked on average in 2007. In '07 your margins were in the high 30s and here they're in the low 20s. Can pricing be the big difference between those two numbers?

Larry Washow: Yes it can. I mean the day rates sometimes are half of what they were at the peak. And when you're looking at going back to 2007, you look at 2008 when we acquired the coil tubing business, the margins in that business are tremendous when the activity level is such that the demand is there.

The numbers are not in front of me, but this year or the end of last year anyway, they literally were half of what they were at the end of 2008. So we really saw a drop off in the demand for coil tubing activity and obviously the day rates.

Then everybody gets competitive to try to keep their people busy. Same thing in nitrogen - the whole demand cycle there, it goes up and down depending on what people are doing with the wells. And a lot of people were just kind of holding, saying well, let's not spend any money.

Let's see what happens here and when we're ready to come back and really start producing oil again we're going to need nitrogen, coil tubing - we'll need all these things. But right now let's just kind of hang tough and see what happens. That activity level is out there. It will come back. And when it does we'll see the day rates come back. But yeah, that big chunk, the vast majority is pricing, Rich.

Rich Wesolowski: Okay. We have spoken about those businesses specifically I think even on the public calls here for a couple of quarters and it seems to have taken a little bit of a leg down and I doubt that could have happened without a decline in the off shore filtration, which was formerly pretty steady. Has that indeed fallen off?

Larry Washow: It has. I mean we really across all the service units - filtration, which is really our core business and hung in there very well. We did see a dip in Q4 for the first time ever really.

And we still are pretty confident when it comes back that will be one of the first areas to come back because a lot of the services we provide in the filtration side are pretty unique. And it's just a question of when the demand for those services is there.

In that case we don't get as much competition as we do in some of the other services. So we're in a great spot there. But the demand just hasn't been there.

Rich Wesolowski: Even at the reduced rates that we saw here for all the businesses in 4Q, is the off shore filtration still much more profitable than the on shore?

Larry Washow: Yes. I mean the off shore business is just almost automatically going to be much more profitable than on shore.

Rich Wesolowski: Okay. It seemed for a while that because of the booming activity in global oilfield development, in industrial production, that the world was generally tight on bentonite and your bentonite products in '07 and early '08. Is your negotiating leverage with customers today across your bentonite products vastly different from that period?

Larry Washow: The industry, which was almost in a sold out position in '07 has come off of that obviously and you see that in our basic minerals revenue numbers.

And the basic minerals is where a lot of those high volume products are used in iron ore palletizing and drilling as I mentioned. So those markets have definitely come down in terms of demand. The pricing there we certainly have seen pressure from customers.

We have not been terribly willing to respond to that for the most part in part because the volumes are just not there. So lowering price is not going to get us more volume and we're pretty comfortable that the value we provide is still there. In fact, we know it is.

So yes, we'll get questions sometimes and there may be smaller competitors who for whatever reason will throw out a lower price. But we are pretty aggressively trying to maintain the margins that we have, recognizing that the lower volume obviously offsets a lot of the margin just by virtue of the fact that the volume is not there.

So yes, we do get some pressure but in general especially in the major businesses like the metalcasting side, we're bringing great value there and really don't see any real issues.

Rich Wesolowski: So in Minerals specifically as we're seeing in 2009 with good margins, the delayed effect of the tight market in '07/early '08, you would not expect to see hence in 2010 and 2011 a delayed effect of the deteriorative market today?

Larry Washow: No. No.

Rich Wesolowski: All right.

Larry Washow: I think you have seen the effect of the market in 2009. And even though the demand is not as strong as it was in 2007, our ability in terms of managing the costs an operations and improving that side as well as the pricing leverage that we have and have taken advantage of, we're still in a very, very good position there. Margins should be going up not down.

Rich Wesolowski: Okay. And lastly, the recession as you mentioned created excess capacity for your perhaps chrome sand competitors focused on the more commoditized iron ore palletizing or the stainless steel markets. To what extent could they hone in on your casting areas?

Larry Washow: That's where the chrome has come from historically is from the major producers obviously. And we think that our model is different, we know it's different.

We're confident in talking with customers that we're going to be able to demonstrate that it's real. We're making a product for the foundries. It's a product that's going to work extremely well. We have got the technical guys that will support it and ensure that the customers make good castings.

And that's really what we're selling. The major chrome guys have had a great business in feral chrome. Obviously that has been way down with stainless steel demand but it will come back and is coming back somewhat already. The foundry market for them has always been just kind of a sideline.

If they had fine material they'd send it over to the foundry market. We're dialing in the right products for these customers and the interest level we have seen already is very, very positive. So could they do it? If they wanted to build a plant like we're building they could do it.

They certainly have the financial wherewithal. But when they're looking at their base market, that's millions and millions of tons versus this market, that's hundreds of thousands of tons, we don't think there is going to be a real excitement level to go out and compete with us specifically in making the high value products we're going to be making.

Rich Wesolowski: Okay. And then I'm sorry, one last one on the investment you're making in the chrome sand production facility - was I correct in hearing you're going to invest another $10 million in 2010 after $15 million in 2009?

Larry Washow: Yes. The $15 million was the purchase of the mine. In fact, it was purchase of 53% of the mine. The plant itself is another 15 to $16 million, a portion of which we spent last year. The rest of it we spent actually mostly this quarter. The plant will be pretty much finished early Q2.

Rich Wesolowski: Excellent. Thank you.

Larry Washow: Thank you.

Operator: The next question will be from Jay Harris with Goldsmith & Harris. Please go ahead.

Jay Harris: Thank you for taking my question. I'm going to jump around a little if you don't mind.

Larry Washow: Not at all.

Jay Harris: Stainless steel foundries - I guess the products go into nuclear facilities. What else?

Larry Washow: Nuclear, airplanes, appliances are a big factor. There is quite a range of markets that stainless steel is used in. A lot of the chemical factories, a lot of stainless steel pipe and stainless steel tanks, things like that.

Jay Harris: They're cast or extruded, the pipe?

Larry Washow: A lot of it is extruded, Jay. And again, remember we're not selling to the stainless steel business - we're selling to steel foundries.

Jay Harris: Right. That's what I was asking. Nuclear equipment is cast. When you say appliances, what is cast?

Larry Washow: Okay. Well, let's make sure we're not confusing ourselves. We don't sell to stainless steel foundries. The chrome sand that we sell is used in steel foundries.

Jay Harris: Okay. All right.

Larry Washow: Steel castings like those that are used on a big ship for example, the propeller a simple example. Things like the turbines that are used in power generation plants - those are typically cast steel and that's the market that we're into.

Jay Harris: All right. Got a question for Don. We're at 35% debt to capitalization. What are the plans in 2010 in terms of cash flow and debt management?

Don Pearson: Jay, I think 35% has been the target over the long term so we're kind of at our sweet spot on the debt to capitalization. We're happy where the debt is now.

Certainly we'll be managing that with the working capital and the investment opportunities going forward, but I think we'd like to stay in this range as a target.

Jay Harris: Well, if you're more profitable in 2010 than you have been in 2009 I would imagine absent any acquisitions your debt to capitalization ratio will continue to come down.

Don Pearson: Yes. Absolutely if we have the ability to pay down debt and with no other opportunities, we'll certainly do that, but is suspect that with some growth that we'll invest in working capital as well.

Jay Harris: Where do you think your working capital is thin?

Don Pearson: It's not thin at all. I mean I think we're hitting working capital at about the right spot. But the expectation is that we're going to see revenue grow and that by virtue of the fact that it's growing receivables typically grow.

I think we have done a nice job in getting days outstanding and receivables in good shape. We'll continue to do that but it's not an infinite line there obviously to get it down. So when the business does come back and grow, receivables will grow as well.

Jay Harris: Well, does that mean that you won't be generating free cash flow during the year?

Don Pearson: We will. Certainly the operating cash flow that we have this year is largely a function of the windfall that you have when your working capital just declines.

Jay Harris: Right.

Don Pearson: So I'm saying that the objective going forward is to manage working capital tighter than perhaps we have in the past. So on a relative basis as it increases, have it increase at a lesser amount than it might have in the past.

Jay Harris: What's the probability that you'll be able to do any tuck in acquisitions this year?

Larry Washow: There are a couple of really small things we look at related to our contracted servicing that won't even move the needle and some of them might not even get an ounce because they're that small.

But there is nothing on the horizon right now that we see that we really need or want. If something does come along that looks interesting and is kind of like you'd describe it as a tuck in or a small thing that makes sense, we would have the wherewithal to do that I think.

Jay Harris: All right. So we should basically look for the capitalization ratios to at worst, stay the same as the year progresses?

Larry Washow: The 35% number, as Don said, that's a good comfortable number, Jay. We're happy there. If there is a reason and a good opportunity or some rationale that it ends up going a bit higher, we won't get terribly out of our comfort range.

If things are stable and we're generating cash you can pay down debt and it goes down lower, that's great too.

Jay Harris: As I look at the Mineral product lines, you have obviously increased your prices. Are any of the product lines down in revenues because of the price increases?

Larry Washow: No. No. The volumes are there or the market share I should say actually is there even with the higher prices. So we haven't really lost any business, which I think is your question.

Jay Harris: Right. What about pet products?

Larry Washow: Pet products - the difference you see in 2008 and '09 is primarily related to freight revenue. We had a couple of customers but one big one in particular we were paying the freight. We don't do that any more.

Jay Harris: All right. And that's one of the reasons the margins go up too I presume?

Larry Washow: Correct. Correct.

Jay Harris: All right. And just refresh my memory - the basic minerals, what markets do they go into?

Larry Washow: The big ones are iron ore pelletizing, which iron ore goes into steel obviously, and oil drilling. And oil drilling is almost correlatable to the rig count, which is about half right now what it was last year at this time although it is nudging up little by little.

Jay Harris: All right.

Larry Washow: Those are the two main ones.

Jay Harris: And just to summarize the remarks that you have made up to this point in time, you're looking for an uptick in your construction related activities starting in the June quarter?

Larry Washow: Yes, it'll be a mid-year thing. Right.

Jay Harris: Mid-year and then chromite ore sales, foundry product sales would start to tick up in the third quarter?

Larry Washow: We'll see a little bit of activity in the third quarter, Jay but probably relevant activity in Q4.

Jay Harris: And then escalating quarter by quarter in 2011?

Larry Washow: Right.

Jay Harris: Right. Well, thank you.

Larry Washow: Thank you.

Operator: The next question will be from Nat Kellogg with Next Generation Equity Research. Please go ahead.

Nat Kellogg: Morning guys. Thanks for taking a couple questions here. I jumped on the call, maybe one or two minutes late so you may have touched on it a little bit but I guess this relates to the first question sort of trying to hash out 2010.

But I guess if you could talk a little bit about seasonality, obviously if you go back and look at last year seasonality, things were going on that kind of obscured the seasonality effect and go a little back and look at '07/'08 and all the progression was a little different.

So maybe if you just talk a little bit about where you guys expect typically on a seasonal basis, it looks for instance I mean last year Minerals obviously was down a lot in Q1 versus the prior year in Q4. But then if I go back to '06 and '07 it was actually a little bit sequentially so just a little bit of clarity there might be helpful.

Larry Washow: Yes. The big market that we do see seasonality Nat, is Environmental and actually on that basis Q4 wasn't too bad and we would expect Q1 to kind of hang in there.

Nat Kellogg: Right.

Larry Washow: But bigger quarters will be always Q2 and Q3.

Nat Kellogg: Right.

Larry Washow: So Environmental we kind of look for that mid-year bump up and that's almost entirely weather related. A lot of these products, virtually all of them, are installed outside.

So you have got to have the right conditions and typically they have to have a lot of preparation so as soon as the weather breaks they're doing that and when they're ready for our materials we ship them in there. The minerals business is a lot less sensitive to cyclicality.

The foundry guys typically in the fourth quarter we do see it a little bit softer than the first quarter really just due to holidays and winding down and starting up a foundry is a major activity. So when they do shut down they'll typically be down for a week or two or sometimes even three.

This Q4 they actually took fairly modest times off. Everybody had their holidays off but they were back to work pretty quickly. So Q1 assuming that the business demand stays the same should be pretty solid, kind of pretty much in line.

The Asian business you do get the Chinese New Year effect in February, which has a bit of an impact on the quarter. But our Asian business while it's growing nicely, is still not big enough to have a radical impact on the end result. So Minerals should be relatively stable.

The pet product end of that, again in the winter you see a little bit more activity but it's not huge. I mean it's maybe 10 to 15% change over the volume in the summer quarters just because cats are outside in the summer -- so not a lot of cyclicality there.

Nat Kellogg: Right. Okay. That's helpful. And then, on then end of some of the project business on the Environmental side, if and when that sort of starts to hit, is that something you guys run the whole project through your P&L or is it you'll just get paid a service fee, which will hit the top line?

Larry Washow: Yes. It depends on the structure but a lot of times we are shipping in the material, we bring in the people who do the installation and like a lot of contracting work, do the progress billing and progress payments.

And it is typically much more than just a fee. In fact, we don't do a lot of the design stuff ourselves. We're involved with the design as and engineering outfit but typically it would be somebody else that puts the engineering stamp on it.

We come in, procure the materials, hire the guys to do the installation, wrap it all up and finish up the project having been involved in the whole process. So it tends to be a pretty nice revenue generator for us and a pretty good margin.

Nat Kellogg: Well, you said in that question, I would assume the margin in that business would kind of be lower than your core Environmental product business, right, because obviously there is a fair amount of resale that goes on there?

Larry Washow: Yes, that's correct. There is no question --I mean it's not going to be a 30% plus gross margin. It'll definitely be in the 20s, probably less on the overhead side because you've got project managers and guys out there that are part of the project that integrate sales.

So operating wise it should be pretty respectable but yes, the gross margins will definitely be a bit lower.

Nat Kellogg: And I mean if you guys - as a percent of your Environmental business, what does that look like now and where would you like that to go?

Larry Washow: Yes. I mean last year was a single digit, 4 to 5% or something like that. We think it can be well into double digits this year and really potentially over the next few years be one of the real growth drivers.

Nat Kellogg: Okay. But from a longer term perspective if it starts to go out and start becoming a bigger part of the business, from a gross margin standpoint it may start to have a little bit of a detrimental effect on the environmental (products line).

Larry Washow: That's correct, it will. It will hurt gross margins a bit but really drive a lot of revenue and operating dollars coming in.

Nat Kellogg: Great. Yes. I mean I'm not saying it's not a good idea. I'm just sort of saying from my modeling perspective (this trends down).

Larry Washow: You're right.

Nat Kellogg: And then without giving guidance or what not, I mean it seems sort of trailing 12, EBITDA just sort of looking at covenants and stuff seems about sort of flattened out here and is likely to be a trough and will probably tick higher from here. I mean, Don, is that fair to say?

Don Pearson: Yes. I think that's pretty fair to say, Nat.

Nat Kellogg: Okay. And the margins on the chromite business you guys expect to be about the same or a little bit better or worse than the Minerals business in terms of costs?

Larry Washow: The overall margin on the chromite itself will be better than the current gross margin in Minerals. I mean I think we're looking at a 30%-ish type horizon. Obviously that is going to be a little dependent on getting a good hand on operating costs.

But one of the impacts that does influence the margins will be the currencies, the South African rand over the last 6 to 9 months has probably increased 25% against the dollar and this is all a dollar denominated business wherever it's sold in the world.

So we do have that little bit of complexity with a lot of costs in rand and the selling price in dollars. But in general I think we're pretty comfortable. It ought to be 30% plus.

Nat Kellogg: Okay. That's helpful. And then just the buy out on the rest of that business, I mean are you guys still planning to just sort of wait until the put date or do you have any plans to sort of - is that a possible use of excess cash if it occurs over the next 12 to 24 months?

Larry Washow: Yes. We'll have to see kind of what other opportunities there are and how the cash goes. But we could do it earlier. That's really just on the mine. We own the plant entirely ourselves and the business side of it.

Nat Kellogg: Right.

Larry Washow: So it's really just the other half of the mine that the put option - and that comes due in 2011 in the first quarter. So we have got some time to figure that out.

Nat Kellogg: Okay. And from an accounting standpoint you'll run the whole thing through the income statement and then it will be a minority interest charge?

Larry Washow: Yes. That's what we're doing right now. In fact we've got 53% and that will ultimately be 100.

Nat Kellogg: Okay. Right --so for next year so you'll be a minority interest charge and then eventually when you guys buy the whole thing that goes away. Okay, all right. That's good. Thanks as usual for all the color guys. I really appreciate it and I'll hop back into queue.

Larry Washow: Thank you.

Operator: The next question will be from Andrew Nelson with Nelson & Associates. Please go ahead.

Andrew Nelson: Good morning.

Larry Washow: Hello Andrew.

Andrew Nelson: How are you?

Larry Washow: Great.

Andrew Nelson: We have rambled all over. I just wanted to make sure you besides the chrome mine in South Africa, I think you have covered most of them but you said some other exciting new businesses are coming on later this year. Is there some other ones that you have not talked about that are coming online?

Larry Washow: Well, the big one is really the contracting service projects. And I'm hoping by the May call that we'll actually be able to provide some examples of kind of the things that we're doing once we get projects committed.

That's an exciting one for us. We think that's really going to be potentially a step change in our Environmental business just to broaden the potential markets that we serve. So that was really the other one I sort of referenced there and we talked a little bit about over the call.

Andrew Nelson: Is it such also Larry that is there opportunity in gas drilling versus oil drilling for your Minerals segment?

Larry Washow: We do a lot of our business actually in both the Oilfield service and the bentonite for drilling ends up in gas. And so we're very active in that marketplace.

What's happened though as you probably know Andrew, just looking at the data out there is the drilling activity is down but the resulting gas production is up.

Andrew Nelson: Right.

Larry Washow: So unfortunately it used to be that gas wells and they drill a lot of them and they would kind of peter out fairly quickly. But these shale plays that are going out now technologically really are a significant change from the historical basis.

And it looks like there is a lot of work going on in the fracking and things and there is lots of debate. But if the data that's out there now is to be believed, you don't need very many wells drilled to create a tremendous volume of gas. So from the business standpoint that's a bad thing.

Andrew Nelson: Right.

Larry Washow: I mean the good thing is we'll have lots of natural gas and it'll be very competitive in price. So that is something we look at but yes, gas, we're definitely - in fact we do a little bit of work on the shales already.

We have always been involved in the gas drilling and for our Oilfield Service part, that's actually an important element historically.

Andrew Nelson: Good. My last question is your payout ration for your dividend has fluctuated. But what level of payout are you comfortable with, what kind of ratio?

Larry Washow: Yes. The board over time - you're right, it has fluctuated. And I think on a long-term horizon around that 30% range plus or minus I think is kind of the board comfort level.

Obviously in a year like last one, it would be a bit higher than that and hopefully we'll see that kind of come back into the light here over the next year or two.

Andrew Nelson: All right. Thanks. I'll hop back into queue and have a great day.

Larry Washow: Thanks Andrew.

Operator: And the next question will be from Todd Vencil with Davenport & Company.

Todd Vencil: Hey guys. Most of my follow ups have been answered but one quick one on the JV impact - I know that thing is reported at a lag.

Any color on how things progressed in the fourth quarter, which will be reported for the first quarter? And then kind of relative to what was a bigger than anticipated benefit I guess in the quarter you just reported?

Larry Washow: No. I think we have kind of seen the beginning of the positive change in the business environments. And some of our JV guys actually dipped down a lot faster and lower than we thought they would.

So I think if we look at kind of the numbers that we reported in Q4 this year, that's not a bad number to throw in the model, at least for now for 2010.

Todd Vencil: Perfect. Thanks a lot.

Larry Washow: You bet.

Operator: And the final question today will be from Al Kaschalk with Wedbush Securities. Please go ahead.

Al Kaschalk: Larry, just a follow up on my question on the JV here - what's the sort of inflection point or things that you'll see that will communicate a little bit more positive ramp in that number or to the other side, continue with some of the variability in the contribution from JV?

Larry Washow: Well, the big driver is Ashapura as you know and they have given our change in reporting.

Don Pearson: Yes. So you have got the 50/50 JV in our Environmental business Al, in India and then also a 50/50 joint venture in Belgium with them and then of course Russia.

Larry Washow: Yes. And so it's - I mean I don't think we're going to see wild swings. I mean the 50/50 bleaching earth is also in India and that's a very nice business. That's really driving - a lot of the profitability comes through there.

But we're also in a position where we're beginning to expand that plank because we're almost sold out. So I wouldn't expect a lot greater contribution near term. I think over time we should expect that JV to trend upwards but it's kind of hard to model in big jumps in that.

And I think the kind of wild fluctuations we saw over the last year should be pretty well behind us on that. We ought to be a lot more stable. There is I think a Japanese element that goes in there as well but that is a fairly small piece too.

Al Kaschalk: So just again on a little broader sense here, with Bleaching Earth and the other growth opportunities that could impact that line, were fairly contained from a corporate perspective and making investments there other than the Bleaching plant opportunity.

And therefore we should see absent market volatility some fairly stable contribution going forward. But we also won't have the growth that we saw in 2006 when this was looking to be a couple million a quarter.

Larry Washow: That's right. That's the right analysis, Al. And the elements that now go into the JV are more constant. They are a bit more predictable than when we had kind of the wild swings on the bauxite business from Ashapura.

Al Kaschalk: All right. Thanks very much guys.

Larry Washow: Thank you.

Operator: And ladies and gentlemen, this does conclude today's conference call. Thank you for your participation.

Larry Washow: Thanks everybody and good bye.

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