



**AMCOL International Corporation Q4 2011 Earnings and Year End Results Conference Call**  
**Friday, January 27, 2012 – 11:00 AM ET**

**CORPORATE PARTICIPANTS**

**Ryan McKendrick**

*President & Chief Executive Officer*

**Don Pearson**

*Vice-President & Chief Financial Officer*

**CONFERENCE CALL PARTICIPANTS**

**Rich Wesolowski**

*Sidoti & Company*

**Todd Vencil**

*Sterne Agee*

**Jay Harris**

*Goldsmith & Harris*

**Andrew Nelson**

*Nelson & Associates*

**Al Kaschalk**

*Wedbush Securities*

**PRESENTATION**

**Operator**

Good morning ladies and gentlemen. Welcome to the AMCOL International to Announce Q4 2011 Earnings and Year End Results. I would now like to turn the meeting over to Ryan McKendrick, President and CEO, and Mr. Don Pearson, CFO. Please go ahead, Mr. McKendrick.

**Ryan McKendrick:** Thank you, Dave, and good morning everybody. Welcome to our fourth quarter earnings conference call.

In this quarter's results you'll see that several of our businesses grew nicely. We posted worldwide sales of \$234 million for the quarter, a 6.5 percent increase over last year's fourth quarter. Our consolidated gross margin improved by 2 percentage points versus last year's Q4 and operating profit also improved substantially. I'll provide a brief overview of some of the main factors driving the results for each of the business segments and then Don will provide a review of the financials before we take some questions.

So let's start by taking a closer look at the Minerals and Materials, our largest segment. Fourth quarter sales were up by 5.7 to \$121 million versus Q4 last year. Geographically, growth was broad based with particular strength in Asian-Pacific at 17 percent growth, where we continue to invest in China, Korea, Thailand, and now in India to establish a strong presence in this part of the world. Sales growth was 6 percent in the United States and 3 percent in Europe. Gross margin for the segment of 25.5 percent represents a 5 percentage point improvement versus Q4 last year. The main drivers of the success in the segment include, first of all, continued strength in our metalcasting business, both in the U.S. and in Asian market areas. We also saw increasing demand for drilling fluids and agricultural specialties. Our Health and Beauty Services business unit turnaround was also a contributing factor and, finally, our chromite business unit contributed to the improved results versus Q4 last year. In our Minerals and Materials business operating profit grew nicely for the quarter with a highly respectable operating margin of 14.9 percent. So all in all it was another solid performance for this business segment, which represents half of our global business mix.

Next let's look at the Environmental segment, where sales were up slightly versus Q4 last year but gross margin deteriorated. The margin deterioration was across all geographic areas driven primarily by our lining tech business unit. SG&A was about equal to Q4 2010. Several key points for Environmental. First of all, building materials and drilling products within this segment both continued to experience nice sales growth with very good margins. These two product lines combined total make up approximately 50 percent of product sales for the segment and we see continuing opportunities for growth in these areas. Secondly, lining technologies remains the challenging area for us in Environmental. Decline in demand is especially pronounced in Western Europe, where lower government funding and infrastructure projects such as landfill and so forth have had an impact. A rebound for this business unit is going to require a combination of focused sales effort in new applications for the existing product line as well as new technology developments, which we have underway. The third point on Environmental is that the contracting business has continued to be a challenge for us in Europe where we are in the process of winding it down. We expect to be out of the business by the end of Q1 and, as you know, we exited the U.S.-based contracting business at the end



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of Q3 in 2011. We've made a number of leadership changes in the Environmental segment, including group president, to better focus on the basic objectives for the segment, including overhead reduction.

So moving on to the Oilfield Services segment, fourth quarter sales were up 24 percent to \$54 million with continuing growth coming from operations based in USA, Brazil, Southeast Asia and Europe. Oilfield Services gross margin also showed a small improvement versus Q4 last year and operating profit also increased nicely for the quarter. This quarter's strong growth was driven primarily by coiled tubing services and our water filtration services, two sizable platforms within this business segment. Coiled tubing growth continues to be driven largely by its close alignment with hydraulic fracturing activity in oil and gas bearing shale. The water filtration business in both the Gulf of Mexico as well as in Brazil is gaining nice momentum as activity in the Gulf of Mexico is starting to increase and we gained some market visibility in important emerging markets such as in Brazil and Malaysia. Finally, we drove double digit growth in pipeline services associated with mandated pipeline maintenance and integrity testing. These services employ some specialized technology for handling high solids that are generated during cleaning operations.

So, in summary, we've got a number of good opportunities within each of our business segments. Flexibility in our 2012 plan will be important as there are a number of economic uncertainties that could affect our businesses. The current slowdown affecting some business units could be temporary or it could linger well into the year, and we're prepared for either scenario. So, in short, our long-term strategy is intact, our financial condition is strong, and we're well positioned to succeed in any likely economic scenario.

That's a quick summary of the business results and operations and now I'll turn it over to Don, who will provide some additional information on the financial metrics. Don?

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**Don Pearson:** Thanks, Ryan. Earnings for the quarter were \$0.43. If you compare that to the prior year we show a loss of \$0.30. That loss included \$0.51 of special items so the real comparable number last year is \$0.21.

As Ryan noted, we had 6.5 percent growth in the quarter year over year and continue to see improvements in both the gross margin and operating margin. So we do see the leverage in the business continuing.

Looking at the income tax line item, 28.5 percent effective tax rate in the quarter. Going forward I would see the effective tax rate probably in that range, maybe up to 29 percent plus or minus.

The joint venture results were pretty strong in the quarter, almost \$1.5 million. We did have some one-time benefits in some of the subsidiaries, or joint ventures, principally Japan. Probably look to a normalized run rate there of maybe \$500,000 to \$750,000 a quarter in that joint venture line.

Looking at the balance sheet, working capital, when you look at that as a percentage of sales, did increase compared to the prior year. We're at 26.4 percent last year. It rose to nearly 29 percent. The majority of that is really on a performance basis due to inventories, and the majority of that is due to increases in chrome inventories as we prepare for the slowdown or the partial shutdown of the chrome plants in South Africa as we add the new equipment in Q1. There was also an increase in inventories in China. But we do expect the working capital to sales performance to improve as we get into 2012 as we work down some of that inventory.

The only other comment I want to make on the balance sheet is we did issue an 8K several weeks ago where we've refinanced our debt facility. Previously we had a revolver of \$225 million. We've increased that to \$300 million. It's a five-year deal, favorable terms, and we have an accordion feature on that which allows us to raise another \$100 million if needed.

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

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**Ryan McKendrick:** Thanks, Don. Operator, we're open for questions now, okay?

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**QUESTION AND ANSWER SESSION**

**Operator:** Thank you, Mr. McKendrick. Questions will now be taken from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press star one on your telephone keypad. You can cancel your question at any time by pressing the pound sign. Once again, please press star one if you wish to ask a question at this time.

The first question is from Rich Wesolowski from Sidoti & Company. Please go ahead.

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**Rich Wesolowski:** Ryan, Don, good morning.

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**Ryan McKendrick:** Hi, Rich.

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**Rich Wesolowski:** I apologize if I missed it or ask you to ask again but what was the chrome revenue in operating profit for the quarter?

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**Ryan McKendrick:** The chrome revenue was pretty much in line with the way it was last quarter. I think we're going to kind of pull back a little bit in terms of providing detailed information on exact revenue numbers on the chrome but it pretty much met our expectations for the quarter.

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**Rich Wesolowski:** And it was profitable?

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**Ryan McKendrick:** Yes.

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**Rich Wesolowski:** Okay. You mentioned an inventory buildup in China; would you mind commenting on that? And also discuss where you expect the growth in the Asian minerals to bottom out perhaps in 2012.

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**Ryan McKendrick:** In China we experienced some inventory growth basically on an opportunistic basis. We

really were able to bring in some pretty low-cost raw materials for stockpiling so we did that. In terms of growth expectations, we had pretty strong growth there in 2011, I think it was 17 percent. In 2012 our expectations are more kind of mid single digit numbers.

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**Rich Wesolowski:** Okay. A few of the bellwether oil and gas service outfits spoke of cost inflation hurting margin in their North American business in the fourth quarter; did that limit AMCOL's operating leverage as well?

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**Ryan McKendrick:** I mean costs on fabrication of equipment is definitely a big increase, but in terms of labor costs and operating costs, we haven't seen a big jump in those areas.

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**Rich Wesolowski:** Okay. So if the business continues to grow and shale works for you and even the offshore moves back, which should be a plus for margin, what is the gross or operating margin that you're shooting for in oil service over a period of a year or two?

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**Ryan McKendrick:** Well, first of all, in terms of the growth for Oilfield Services, we're looking at kind of mid, mid-teens as our growth target for that group in 2012. In terms of operating margin, I'm sorry, gross margin, we're seeing, we're expecting a little bit of improvement over where we are right now. But that should translate into a nice bump in operating margin as well.

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**Rich Wesolowski:** Okay. And then, finally, what do you have for 2012 CapEx, again if you didn't say it already, and how much of that is South America?

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**Ryan McKendrick:** CapEx we expect to be in the range of \$65 million to \$70 million and South Africa specifically—

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**Don Pearson:** Yes, it's less than \$10 million. \$5 million to \$10 million probably, Rich.



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**Rich Wesolowski:** Thank you very much. Best of luck with the business in 2012.

**Operator:** Thank you. The next question is from Todd Vencil with Sterne Agee. Please go ahead.

**Todd Vencil:** Good morning, guys. Ryan, can you talk a little more about the Oilfield business? I mean you mentioned in the press release that you're looking at a number of product lines that are undergoing restructuring and you, I suspect that some of that folds into what you talked about with what you're doing in lining tech, but can you just give us some color on what you're looking at restructuring?

**Ryan McKendrick:** Was this with respect to Oilfield?

**Todd Vencil:** No, I'm sorry. Environmental.

**Ryan McKendrick:** Okay. First of all, okay, so we've made a number of leadership changes in the Environmental segment, including group president, to better focus on four basic objectives for the group, okay? Number one is to improve forecasting and our overall business intelligence. We haven't done a good job on the forecasting end. Number two is assigning the best people that we have to the areas where they're going to have the maximum impact. Part of that point is really directed at being in the right businesses. So we need to scale back on initiatives with marginal opportunity for success, and we're doing that, and make sure that we're really devoting all of our resources to the areas that really have some good upside potential. Number three, in our building materials group, we need to repeat the successful model that we have in BMG, where we have driven success in several regional geographies based on broadening the product mix as well as offering quality assurance project inspection component for the product offering. So we're aggressively expanding this model to additional regions.

And the last point is on lining tech. There are two points within lining tech. First of all, for several geographic regions where our products have met with market

acceptance for a much broader range of applications, including roadway construction, flood embankments, canal linings, etcetera. We're really driving our sales force to develop these applications more broadly geographically rather than being isolated into certain territories. And, secondly, the new technology we have under development is going to position us for applications in a broader range of projects with more demanding chemical compatibility requirements for their systems - for the liner systems. So I think that's the basic strategy, Rich, and I think it'll be successful. The new technology introduction will be longer term. Some of the sales-focused strategies will be shorter term.

**Todd Vencil:** That's—I appreciate that answer and that's a lot on your plate. I mean can you talk about, I mean I'm kind of interested in the impact and the timing of a lot of this, and I guess let's start with getting out of the European contacting services business. I mean has that been a drag on operating profit? And I mean how much of it-- how much are we going to benefit by getting rid of that drag sort of going forward, if it is.

**Ryan McKendrick:** It has been a big drag. We've had to take a couple of write-offs. I think we highlighted one from last quarter which was over \$1 million. But when you look at Environmental in terms of our expectations for short term, 2012, we're expecting growth, again, in the mid single digit sort of a range, but we're expecting some pretty nice improvement in gross margin as a result of some of the streamlining we're doing in terms of the businesses that we're in. But our real focus on operating margin with SG&A reduction should create a nice bump for us in terms of the overall operating profit contribution from that group.

**Todd Vencil:** Are we talking something that could get back to sort of, 10 percent operating margins? Or is that a little bit of a stretch?

**Ryan McKendrick:** Yeah, low double digits. Right.

**Todd Vencil:** In 2012.



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**Ryan McKendrick:** In 2012.

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**Todd Vencil:** Okay. Good. And then I mean you—let's shift over to Oilfield. I mean you talked about this a little bit and you certainly mentioned better results in the Gulf of Mexico, I mean can you talk about where you see that heading in the water treatment business and what you're sort of orders and market intelligence is looking like?

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**Ryan McKendrick:** Sure. First of all, the water filtration business is rebounding pretty nicely in the Gulf of Mexico and activities in the Gulf is slowly increasing. Sales were up 77 percent sequentially, fourth quarter versus third quarter. We've got several commitments to perform work on deep water platforms in the Gulf and we're also seeing increased demand for our filtration technology in Brazil, Malaysia and Europe. So we're pretty bullish about the water filtration business to come back.

The coiled tubing business continues to perform very well. We're closely aligned with the hydraulic fracturing activity, especially in the oil shale areas in Eagle Ford, which is in west Texas and in certain areas of Louisiana. So that area looks very solid for us as well.

Then the other area within Oilfield that I'm excited about is the pipeline service business, which is doing very well in terms of growth and profitability. Although sales revenue is under \$5 million for the year, we're expecting some nice growth in that area.

So overall we're pretty upbeat about the prospects for our Oilfield Services segment and if you look at wrapping it all together in terms of expectations for 2012, mid-teens in terms of growth with, again, some improvement in gross margin and a nice uptick in operating margin expectation.

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**Todd Vencil:** Excellent. That's great. And since you've sort of given me kind of the top-down view, I mean I don't have a ton of specific questions. I was going to ask the chromite question but I understand that you want to back off being too specific on that, but just generally for Minerals and Materials can you talk about top down what sort of your expectations for this year are?

**Ryan McKendrick:** Yeah, again, I think slower growth than we've experienced historically, more in line with sort of GDP expectations in terms of top line growth. Pretty decent operating margin leverage though is our expectation for 2012. And I'm not really hesitant about talking about the chromite business. I think there are a number of different things we have going on in that business that look pretty decent for us. So if you'd like me to address that I'd be happy to.

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**Todd Vencil:** Oh, no, I just meant more with the specifics on tonnages and things like that.

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**Ryan McKendrick:** Yeah, we're continuing to sell at a range of about 6,000 tons a month and we really have not been very aggressive about going out and getting additional business until we get all the fixes in place at the plant that we talked about last quarter. But pricing is under a little bit of pressure in terms of downward pressure on pricing because of the tie-in with the ferrochrome market. But all in all the demand is not anything that's of big concern to us.

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**Todd Vencil:** Good. Good. And is that, I mean is the chromite business, as we get later on in the year I would anticipate that that's going to start helping at the margins as that business improves. Is that a reasonable way to think about it?

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**Ryan McKendrick:** I think the real advantage for us going forward with the chromite ore business is going to be in developing ability to produce more. So most of the fixes that we're putting in place are not only going to give us better quality but much higher throughput. So if we can get those throughput numbers up it enables us to sell more and then that really affects the margins right.

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**Todd Vencil:** Got it. Thanks for that.

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**Operator:** Thank you. Once again, please press star one if you have a question. The next question is from Jay Harris with Goldsmith & Harris. Please go ahead.



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**Jay Harris:** Good morning. Let's go back to the chrome business for a moment. I presume that the profitability in the fourth quarter was supported by your choice of using the higher-grade ores coming out of the mine. As you start up the new equipment when do you anticipate using lower-grade ores?

**Ryan McKendrick:** The type of ore that presented a problem for us, Jay, was ore that contained this magnetic material, and I think in second quarter we should have most of the fixes in place which would enable us to process that type of ore.

**Jay Harris:** And when you start processing that ore how would the profitability of the business be affected?

**Ryan McKendrick:** The profitability, again, is really pretty much dependent upon throughput. So the—

**Jay Harris:** The more volume the higher the gross profits?

**Ryan McKendrick:** That's correct. And that's driven largely by sales. I mean we're not going to over produce just for the sake of increasing throughput. So once we get these fixes in place which will increase throughput and give us a better quality, then I think we'll really start pushing the sales and that will drive the increased margin for the business.

**Jay Harris:** All right. And you said you were selling about 6,000 tons per quarter?

**Ryan McKendrick:** Per month.

**Jay Harris:** Per month.

**Ryan McKendrick:** Correct.

**Jay Harris:** Okay. I wondered if you could share the following kind of information with us. If you look at your growth expectations, profit growth expectations for the company, how would you allocate that by segment? Or sub segment? What percentage would you expect to be coming out of your minerals business and which sub segments would be the principal drivers, etcetera?

**Don Pearson:** Well, Jay, it's Don. Minerals is half the company so, as Ryan said, we're going to have probably slower growth but at a steady margin there. So, on a change basis, we're probably going to see more operating profit coming from both Oilfield and Environmental. And it's probably pretty equal in the impact to the bottom line. Where we're going to have more growth from Oilfield with top-line growth and improving margins, whereas Environmental is probably a lower growth rate but a recovery of operating margins. But the contribution is probably pretty close to equal.

**Jay Harris:** I gather from your comments on shale related activities that your services were more in use on oily shales and therefore any reduction in gas production is unlikely to affect the demand for your business.

**Ryan McKendrick:** That's a good observation, Jay. Most of our work in the coiled tubing area is in the oil-bearing shale areas.

**Jay Harris:** All right. Are the contract sales going forward to be classified as discontinued operations or when you exit, I've forgotten, Europe I guess, ah, are there still some contract sales?

**Don Pearson:** Yeah, Jay, so it's kind of two situations. In the U.S. we sold the business, so that is accounted for as discontinued operations and there will be no more sales there. We have not discontinued the operations from an accounting standpoint in Europe; we're simply winding it down. So over the next several quarters we'll just have fewer contract service revenues and by several quarters out they'll be nil.



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**Jay Harris:** All right. So, in other words, you're not selling the business, you're just completing the contracts and not taking any new orders.

**Don Pearson:** Correct.

**Jay Harris:** All right. What have you done in Europe to affect the competitive situation with respect to, ah, your liners, your lining materials?

**Ryan McKendrick:** Well I think, first of all, in Europe it is important to note that the majority of our business there in that Environmental segment is in the water proofing end. So it's not as susceptible to the competition in the liner area. So that kind of insulates us a little bit in Europe from the effect on the liner segment. But, having said that, the lining technologies business in Europe is extremely competitive, and our way of approaching that is to really diversify the end markets that we're approaching. And we've had a lot of success with that in places like Poland and other areas in Eastern Europe where we go after a lot of projects for instance in flood control berms or in storm water control, where they're typically smaller projects, much less publicized, and as a result of that the level of competitive activity—it's not on many of our competitor's radar basically. So I think the approach is doing a lot more of that.

And just to give you the impact that can have, when you look at some of these areas where we have done that successfully the landfill business, which are the big, very public jobs, represents only about 30 percent of our lining tech sales. The other smaller, more niche type projects represent 70 percent. So that's probably the biggest effort that's underway in Europe, to broaden that approach.

**Jay Harris:** Is there going to be much of a shift from domestic to international sales in 2012?

**Ryan McKendrick:** I think—we don't really see a huge shift in the overall percentage. I think there's a big focus within Oilfield where we're seeing a lot of activity in places like Brazil, North Sea and Malaysia, but other than

that I would think that the percentages will remain fairly stable.

**Jay Harris:** And on your refinanced lines of credit, what does your, what kind of interest rates are you paying currently?

**Don Pearson:** You know, Jay, it's a pricing grid based upon leverage and so it's equal or favorable to our prior deal. So it's LIBOR based on our leverage.

**Jay Harris:** And so what kind of interest rate will you be paying in the March quarter based on your current leverage?

**Don Pearson:** Yes, if you look at 2011, our fixed debt, which is \$125 million, is between 5.5 and 5.8 percent, the remainder mainly being on the revolver. The average rate on the revolver is probably 3 percent or less as we're going, we're borrowing it on monthly LIBOR plus a margin. So pretty favorable. Rates are going to be held down for the next several years so we probably will continue to have favorable pricing on the revolver.

**Jay Harris:** I'm glad to see you believe the Federal Reserve Board. Anyway, thank you very much.

**Operator:** Thank you. The next question is a follow-up question from Rich Wesolowski with Sidoti & Company. Please go ahead.

**Rich Wesolowski:** Thanks. What are the areas of your Oilfield business you would say are less competitive or that you have a demonstrably superior product or service offering relative to competitors? And, conversely, which of your segments within Oilfield are more commoditized and competitive?

**Ryan McKendrick:** I think when you look at the mix of product lines within the Oilfield segment that the ones



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that really stand out in terms of a technology difference are our pipeline services area, and certainly our water filtration area. The ones that I would characterize as more of a sort of me-too service offering where we differentiate ourselves through service and that sort of thing are probably our nitrogen services area. And that's about it.

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**Rich Wesolowski:** Would you put coiled tubing in the pipeline services?

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**Ryan McKendrick:** I think coiled tubing is one of those areas that we differentiate ourselves basically through personnel and service capability. In terms of the technology, there's not a real strong differentiation from competitors.

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**Rich Wesolowski:** Okay. So the pipeline services you would be talking about the test and the integrity and the waste clean-up.

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**Ryan McKendrick:** That's correct.

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**Rich Wesolowski:** Okay. Is there any difference in the competition for the offshore filtration than there was three years ago or pre-BP? I know that's not a (bentonite) based business for ACO.

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**Ryan McKendrick:** No, I think we have a pretty solid position there. We really haven't seen any real strong competitive activity to challenge our position in that filtration niche.

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**Rich Wesolowski:** Okay. Should we expect any lag between shallow water drilling activity, which is on the rise, and your offshore filtration revenue?

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**Ryan McKendrick:** Yeah, there is, there is some lag. As the drilling permits are issued and the drilling starts, we come in maybe two, three months behind the initial drilling operations to do the initial production clean-up.

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**Rich Wesolowski:** Okay. But only a quarter or so, if that.

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**Ryan McKendrick:** That's correct.

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**Rich Wesolowski:** Okay. And then just putting a finer point on a previous question on the geography of your North American land-based oilfield activity, the widening divergence between the liquids driven activity and the dry gas basins, you mentioned some business in Louisiana. Would you remind us exactly of your geographic concentration in the land base and also the degree of flexibility you have in putting crews in different shales or anywhere else with what seems to be a pretty rapidly changing market?

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**Ryan McKendrick:** I think the rapid change in the market is certainly there and when you consider that, when you look at our overall business, in 2010 we were probably 65 percent to 70 percent offshore based. We've been able to switch pretty quickly to about 70 percent of our business now being land based. So we do have a lot of flexibility. And we're doing a lot to design our equipment so that it can be deployed offshore as well as on land. So I think we've got a lot of flexibility, Rich. And specifically where we're working right now, our biggest concentration on the land-based coiled tubing and well testing services is probably in that Eagle Ford shale area in West Texas.

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**Rich Wesolowski:** Okay.

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**Ryan McKendrick:** We are also in Barnett and Haynesville. We're just getting started in Marcellus with some frac water treatment technologies but a very minor position there at this point.

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**Rich Wesolowski:** I imagine the activity in Eagle Ford is, ah, has a lot more momentum than anywhere else you see.



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**Ryan McKendrick:** That's right. And it's the kind of business we want to be in. The oil-based shale is the area that has the most value for us.

**Rich Wesolowski:** Great. Thanks again and good luck.

**Operator:** Thank you. The next question is from Andrew Nelson with Nelson & Associates. Please go ahead.

**Andrew Nelson:** Good morning. I just have kind of a curious question. In your casting business, with carbon fiber coming on quite rapidly, which require, I know it's a (weave) product, but some of these parts are getting rather intricate. Is that part or could be part of your casting business? I have no idea how they make those refined parts.

**Ryan McKendrick:** This is in our metalcasting business? I'm not really familiar with this technology, Andrew.

**Andrew Nelson:** Okay. Anyway, I just—I'm not either so I just have to keep asking questions. Anyway, appreciate your time.

**Operator:** Thank you. The next question is from Al Kaschalk with Wedbush Securities. Please go ahead.

**Al Kaschalk:** Thanks for letting me join the Jay and Rich call here. Anyways, Ryan, if you could elaborate, it sounds like in the contracting business in Europe you don't expect any windup charges, or at least not that you're aware of, as you had in the 12. Is that fair?

**Ryan McKendrick:** Yeah, I think so. We had one big write-off we took in Q3 last year, Al, but we don't see anything on the horizon that looks like a problem.

**Al Kaschalk:** Great. And then on the inventory you talked a little bit about the favorable purchase, ah, so is

the build all raw materials oriented and, if so, is there any direct end market that that was favorable by?

**Ryan McKendrick:** Well, when you look at the inventory run-up overall, I mean the biggest affect on working capital increase was inventory for 2012. When you look at end of year 2012 versus end of year—I'm sorry, end of year 2011 versus 2010, it was about a \$40 million increase in inventory. Part of that was this run-up in China. But the largest component in terms of the inventory run-up was really in chromite. We built up a lot of inventory, both raw material as well as finished goods, in anticipation of this shutdown of the operations so that we could make sure our customers, we maintained supplies for our customers. So I view that inventory number to be at a peak right now. And we should be able to work that down pretty significantly during 2012.

**Al Kaschalk:** And given the improved performance on chrome business, you commented about selling a tonnage level, I guess the question would imply or would imply then that your processing through is similar otherwise it would be less favorable in terms of operating results, right? In other words, the investments and changes, upgrades you're making, you're starting to see some progress. Or no, you won't see that until after Q1?

**Ryan McKendrick:** We're seeing progress in terms of our throughput and our ability to create a product that's a good saleable product, primarily because we're mining this ore from a deposit which is, ah, which gives us much more favorable ore characteristics. The fixes that we have planned are partially (installed). We just put some equipment in last week, as a matter of fact, on one side of the plant. When these are all completed, Al, which will be probably in second quarter, then we will be able to have a much higher throughput to that plant, which will enable us to increase sales activity. And at that point we see some real impact on margin improvement.

**Al Kaschalk:** So is what you're selling today, Ryan, more of a product, ah, you're still doing some, I won't say testing and trials but by no means are you at a spot where there's a volume of product being sold consistently ongoing basis to a customer. Is that fair?



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**Ryan McKendrick:** We're selling a product that meets customers' requirements, but it takes us a lot of effort to get it to that point.

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**Al Kaschalk:** I see.

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**Ryan McKendrick:** We have to process it much more extensively than we would once these equipment improvements are made.

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**Al Kaschalk:** Just switch over to, ah, just to tie-up on the Oilfield Services side, could you comment or give us some color on how your business may or may not be different in terms of how it's contracting with your potential end customers? Specifically on filtration and the tubing side, are you seeing multi-year agreements for services or are you still very, is it more shorter term than that?

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**Ryan McKendrick:** It's a combination of both. I think on the coiled tubing business we do have some long-term commitments with some major operators. In the filtration business in the Gulf of Mexico it's primarily project-driven, but in places like Brazil, long-term contract. So it's kind of a mix. But no real change in terms of the way it's been historically.

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**Al Kaschalk:** All right. And then the only other, the follow-up I had was on seasonality. Is 2012 are you thinking that that's going to—given all of the dynamics that are going on here and the goals from a margin performance perspective it seems like we're going to get back to a little bit more seasonality in your business given, A, where the economy is and, B, the changes that you're making. Is that...?

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**Don Pearson:** Al, do you mean that in a more normalized environment with less charges and things, that the traditional seasonality that we'd see mainly driven from the Environmental business will stand out more clearly?

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**Al Kaschalk:** Well even—yes, or even feel free to take it even higher. In other words, from an earnings perspective are Q2, Q3 going to be strongest, Q1 the weakest? I mean obviously you don't provide guidance but I think the tone of—it still seems like it's going to be choppy here in the first half of 2012.

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**Don Pearson:** Yeah, I think generally, you'll still continue to see Q1 as the low point and Q2 and Q3 the high and then Q4 something in between.

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**Ryan McKendrick:** And you're right, that is driven primarily by the Environmental segment.

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**Al Kaschalk:** Okay. Thanks for taking my questions.

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**Operator:** Thank you. This concludes the question and answer period. I would now like to turn the meeting back over to Mr. McKendrick.

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**Ryan McKendrick:** Okay, thanks everybody for joining us on the call today and look forward to talking to you at the end of next quarter. Thank you.

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**Operator:** Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.