



## **Q2 2009 Conference Call**

**Laurie Tugman**

Good morning ladies and gentlemen. Welcome to the second quarter 2009 conference call and webcast this morning. With me on the call this morning is Bill Martin our Chief Financial Officer.

Before we commence our presentation this morning, we would remind you that our remarks may contain forward-looking statements. These statements are based on current views and expectations that are subject to risks, uncertainties, and assumptions that are difficult to predict, and actual results might differ materially from results suggested in any forward-looking statements whether as a result of new information, future developments or otherwise.

Additional information identifying risks, uncertainties and assumptions is contained in the Company's filings with the securities regulatory authorities, which are available through the Company's website, [www.marsulex.com](http://www.marsulex.com).

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Our second quarter results need to be viewed with several things in mind. First, and most obvious, the incremental revenue and earnings in MET had a positive impact on the results. Secondly, in the second quarter last year, we were experiencing a rapid escalation in sulphur prices which had a significant impact on revenues while this year in 2009, we have experienced significantly lower pricing for sulphur with prices more typical of those experienced in 2007. Thirdly, economic conditions, while stabilizing, continue to impact our more volume sensitive businesses. Taking these factors into account, we were pleased with the underlying performance of our businesses in the quarter.

Although volumes were lower for some customers in Industrial Services and Western Markets and cost pass throughs were also lower, lower input costs together with the positive impact of foreign exchange led to gross profit that was in line with 2008.

Below the gross profit line, increases in incentive plan costs, foreign exchange translation losses on U.S. denominated SG&A, and consulting costs were offset by foreign exchange gains.

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Finally, a brief comment on the incremental revenue in MET. As we noted in the news release, it was due to a previously announced project not proceeding and to the closeout of a couple of other projects that resulted in incremental earnings.

So, given the continuing difficult and uncertain economic environment that still exists, we were happy with the second quarter and first half year performance. We also feel confident about Marsulex's ability to continue to generate sustainable cash flows, and this was reflected in the

Board's approval of an increase in our quarterly dividend from 16 cents per share to 18½ cents per share.

I will now ask Bill to review the financial results in more detail.

### **Bill Martin**

Thank you Laurie, and good morning. As Laurie mentioned, given the challenging economic conditions, we were pleased with the second quarter results.

Consolidated revenue was \$89.4 million compared with \$89.7 million in the second quarter of 2008. This included the incremental revenue in MET, offset by lower revenue in the other two groups, primarily Industrial Services. As we noted on the last call, we had strong contributions from these segments last year because of strong demand and high sulphur prices. This year, we have experienced price and volume declines in some of our volume sensitive businesses.

Gross profit for the quarter was \$43.1 million compared with \$25.8 million in Q2 '2008. Again, this included the impact of the MET results.

SG&A and other costs for the second quarter were \$7.9 million compared with \$7.3 million last year. This increase included the increase in incentive plan costs of \$2.7 million, and the translation of U.S. denominated SG&A and increased consulting costs of \$700,000. These were offset by the increase in foreign exchange gains of approximately \$2.8 million.

EBITDA for the second quarter was \$35.1 million, compared with \$18.5 million in Q2 '08. Pre-tax earnings for the quarter were \$25.8 million, and net earnings were \$17.3 million, both significantly higher than last year. The increases were due primarily to the MET results and foreign exchange gains.

The interest rate environment continues to be favourable. In the quarter, interest expense was \$1.1 million, approximately \$1 million lower than last year, and the interest rate on our long term debt averaged 3% compared to 5% a year earlier. Assuming rates and debt remain at current levels, we expect to realize a further \$1.5 million savings for the remainder of the year.

Cash flow from operations for the quarter of \$22.2 million was comparable to the cash flow for the same period in 2008.

Turning to the business segments...EBITDA was \$13.6 million for the Industrial Services Group, compared with \$15 million last year.

This reflected changes to sulphur markets that we've already mentioned, as well as lower Petcoke and Toledo volumes, and the timing of hazardous waste processing for remediation projects. These negative impacts were offset by the positive impact of foreign exchange, lower input costs and the contractual pass through of fuel costs.

Turning to the west... Western Markets' revenue was lower than last year reflecting decreased revenue for sulphur-based products. However, lower input costs, primarily sulphur and fuel, resulted in gross profit of \$6.8 million compared with \$5.4 million a year earlier. The increase in gross profit also reflected the timing of maintenance activity. EBITDA for the quarter was \$6.2 million compared with \$4.8 million in Q2 '08.

As we have mentioned, the MET results were impacted by project closeouts and the termination of a previously announced project. Revenue was \$31.5 million and EBITDA was \$18.8 million for the quarter. When the impact of the incremental revenue is removed, the results were comparable to last year.

Total capital expenditures in the second quarter were \$3.1 million as compared to \$4.6 million last year. As we have indicated previously, we expect to spend more on maintenance capex in 2009, probably in the range of \$18-19 million, compared with \$16 million in 2008.

We continue to maintain a healthy balance sheet. Our available cash and credit position stood at approximately \$130 million at the end of the quarter. This gives us the ability to properly manage our business during uncertain economic conditions, yet also pursue growth opportunities.

I'll now hand the call back to Laurie.

**Laurie Tugman**

Thank you, Bill.

As we have mentioned on recent calls, while our business model provides us with insulation from the effects of a recession, we expected some impact just like many other companies. We've taken steps wherever possible to adjust our operations, but as we said on the last call, at the end of the day it's the performance of our customers that will have the most impact on our results. Certain of our operations, notably Western Markets, Petcoke Services and hazardous waste processing, are more sensitive to lower customer volumes and this is the way it played out in the second quarter.

Nevertheless, we're pleased with the stability of our business, and as we find ways to lower our costs for many of our operations, we have been able to maintain a healthy level of gross profit.

Although economic conditions have stabilized to some extent, we expect continued uncertainty in our volume sensitive businesses as markets and businesses continue to adjust under these uncertain economic conditions. This, together with lower sulphur prices is expected to result in lower year over year revenue for the balance of 2009.

In the meantime, we're keeping in close touch with our customers, constantly reviewing our own cost structures and processes, and investing in capital improvements that take a long term view of the business.

That concludes our remarks, and we would now be pleased to answer any questions.

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