## MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the KMG Chemicals Incorporated Second Quarter 2011 Conference Call.

We would like to begin by reminding you that the information in this conference call includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements as to the future performance of the company. Although the company believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct.

Factors that could cause results to differ include, but are not limited to the loss of primary customers, successful implementation of internal plans, product demand, the impact of competing products, increases in the prices of raw materials and active ingredients, successful acquisition and integration of additional product lines and businesses, the condition of capital markets in the light of interest rate and currency fluctuations, and general economic conditions, environmental liability, the ability to obtain registration and re-registration of products, increased environmental compliance cost of products, and general, political and economic risks and uncertainties.

With that, I'll now like to turn the call over to Neal Butler, President and CEO. Neal, please go ahead.

### J. Neal Butler, Chief Executive Officer and President

Good morning. Again, I welcome you to KMG's fiscal 2011 second quarter conference call. John Sobchak, our CFO, and I'll take you through the financials and provide an overview of each of our businesses, including our progress in integrating our March 2010 Electronic Chemicals acquisition. We'll also discuss our outlook for the remainder of fiscal 2011. After our comments, we will address your questions.

Our earnings release was filed earlier today, and I hope you all have had an opportunity to review it. You can access it on our website. We also plan to file our 10-Q later today.

While our earnings fell somewhat short of our expectations in the second quarter, we are very pleased with the trends in each of our business units. We reported a 44% increase in net sales to $64.9 million, as our markets continued their recovery from the lower demand experienced in the second quarter of last year.

Our Electronic Chemicals business experienced sales increase of 57% due primarily to the March 2010 acquisition in that segment as well as the recovery in the semiconductor market.

We also reported a 40% increase in sales in our Creosote business and 3% sales growth in our Penta business both due to increased demand. Animal Health was also a strong performer as we benefited from the recovery in the U.S. food animal sector that negatively impacted sales and margins in the business since fiscal 2008.

For the second quarter of fiscal 2011, operating income was $4.8 million and net income was $2.4 million or $0.21 per diluted share versus operating income of $6.9 million and net income of $4.0 million or $0.35 per diluted share for the same period in fiscal 2010.

For the first half of fiscal 2011, net sales rose 34% to $127.0 million. Operating income was $10.4 million and net income was $5.9 million or $0.52 per diluted share compared to net sales of $94.5

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million, operating income of $14.9 million and net income of $8.6 million or $0.75 per diluted share in the same period in fiscal 2010.

As discussed in last quarter's conference call and release, the first half of fiscal 2010 was unusually strong due to favorable product mix in our wood treating business combined with a dramatic, short-lived drop in raw material prices. A movement back to more normalized raw material pricing was seen in the latter half of fiscal 2010.

And within our Electronic Chemicals segment, sales increased by 57% to $36.0 million from $22.9 million in the prior year due primarily to the acquired business, as well as improved sales on better economic conditions. This segment contributed $1.3 million to operating income, down from $2.5 million in the last year's second quarter, with the decline due to higher manufacturing and distribution cost, primarily attributable to integration costs associated with the most recent acquisition.

A key element of our strategy is to consolidate production of solvents and most acids into two KMG owned facilities. During the quarter, we incurred duplicative plant costs as a consequence of the need to expand the operations of our plant in Pueblo, Colorado that produces acids and our plant in Hollister, California that processes solvents in advance of moving additional production to these two locations.

At the same time, we continue to pay for the contract manufacturing locations in Bay Point, California and Texas – in Dallas, Texas, which are operated on our behalf by General Chemical and Air Products respectively.

A key driver for our manufacturing integration plant was our customers' requirements to re-qualify our products for their semiconductor fabrication plants, which are now being produced in our new manufacturing locations. This process is quite involved and has been executed very efficiently by the KMG team.

As a result, the product moves are on schedule and the duplicative plant costs will be eliminated once production is consolidated into Pueblo and Hollister at the end of the fourth fiscal quarter. At that point, we'll exit Dallas and Bay Point and will be limited to the contract manufacturing of only one product and group.

Distribution expense for Electronic Chemicals increased by $2.7 million compared to last year's second quarter. This was primarily due to increased sales volume associated with the acquisition. It was also impacted by the increase in diesel prices during the second quarter.

Distribution expense as a percentage of revenue increased to 17.4% in the second quarter, up from 15.6% in the second quarter of fiscal 2010. Besides higher diesel prices, we were also impacted by some temporary cost increases during the quarter as we consolidated production.

Distribution expense was also adversely impacted by supply shortages in the U.S. and Europe for two important raw materials during the quarter that required us to incur higher costs to continue to meet customers' needs. These suppliers have now resumed production.

Also as we effected the consolidation of our U.S. manufacturing, some temporary inefficiencies resulted in our supply chain. As we approach final stages of product qualification, we are also in the process of optimizing our shipping lanes, given the new production locations and customer delivery points.

Taking into account the impact of higher diesel prices, we anticipate being able to reduce distribution expenses as a percentage of revenue to the mid 16% range by the end of the fiscal year.

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The capital investment projects at our two U.S. facilities to accommodate large production volumes are on time and within budget.

In the first half of this fiscal year, we made upgrades and equipment purchases for approximately $2.1 million to our Pueblo, Colorado and Milan, Italy facilities. We also spent $1.3 million in connection with our ongoing expansion project at the Hollister facility. Our timetable calls for completion of the integration and consolidation of the manufacturing operations by fiscal 2011 year-end.

At that time, all designated production volumes will have been shifted from third-party toll manufacturers to our plants in Pueblo and Hollister significantly reducing our production costs. As a result of the additional production volumes, these plants will run at over 80% of capacity versus approximately 50% prior to the plant consolidation. We project that consolidation of production will increase operating margins by 200 basis points in fiscal 2012.

This quarter, we implemented global price increases, which take effect in March and April. This action was taken to address the raw material price pressure we've been experiencing over the first half of this fiscal year. We believe this will release some of the pressure on our operating margins going into the second half of the year.

Also we've won significant additional business from a large customer in the U.S. and are investing $3.0 million in additional bulk delivery trailers to accommodate the incremental sales volumes, which were expected to begin in the first quarter of fiscal 2012.

We are seeing additional opportunities for organic growth in our Electronic Chemicals business with $15 billion of expansions in progress or announced by our customers in Texas, New York, Arizona, and Oregon coming on line beginning in fiscal 2012 and ranging over the next few years. We anticipate an approximate 5% to 8% increase in revenue over the next 12 months due to some of this new business coming on stream coupled with our previously announced price increases.

Moving to our Wood Treating business. Wood Treating sales were $25.8 million in the second quarter, an increase of 30% compared to last year's $19.8 million, due primarily to an increase in sales volume.

Overall, Wood Treating contributed $4.4 million to operating profit in the second quarter of fiscal 2011 compared to $5.5 million in the same period last year. In our Creosote segment, sales in the fiscal 2011 second quarter rose 40% to $20.5 million from $14.7 million in the same period last year due to an increase in sales volumes. Margins were negatively impacted relative to 2010 due primarily to lower prices and a shift in product mix.

We are experiencing an increase in demand from our customers as rail tie production rates trend up. We expect continued strong sales volumes in the second half of the fiscal year.

Income from operations in the Creosote segment was $2.8 million for the current quarter compared to $4.1 million in the second quarter of fiscal 2010. In addition to lower average pricing, we experienced higher costs for steaming and rail car cleaning that added $123,000 in the current quarter over the previous year's amount. We believe that increased Creosote throughput and milder temperatures will cause steaming costs and rail car cleaning costs to decline in the second half of fiscal 2011.

It is worth noting that the year-over-year quarterly comparison is also impacted by the strong performance of Creosote in the second quarter of fiscal 2010, a residual effect of the previously mentioned market conditions that existed for that segment in the first half of fiscal 2010.

While unit margins in the second half of the fiscal year will be lower than fiscal 2010, demand is expected to continue at current levels with second half volumes running notably ahead of last year.

Penta sales increased 3% to $5.3 million due to an incremental increase in purchases of treated poles by utility companies, producing a $168,000 increase in sales in the second quarter. Income from operations for Penta was $1.6 million compared to $1.4 million in the same period of last year with improvement due to higher demand. We anticipate volumes to remain at these levels through the end of the fiscal year.

Moving to the Animal Health business, second quarter net sales rose 27% to $3.1 million from $2.5 million in last year's second quarter resulting in income from operations of $144,000 compared to an income of $87,000 in the same period of last year.

The sales growth reflects improvement in the U.S. feed animal sector and the associated increase in demand for pest control. This is a very seasonal business with sales heavily weighted towards the second half of our fiscal year.

We are seeing an increase in demand for our Animal Health products in South America having recently obtained product registrations in some key cattle producing countries.

We'll continue to pursue additional registrations and sales opportunities in that region. We've also seen an increase in orders for our products in Australia, which have been helped by the stronger Australian dollar.

I now will turn the call over to John to provide additional information on the quarter and the fiscal year, as well as discuss certain balance sheet and cash flow highlights. John?

**John V. Sobchak, Chief Financial Officer**

Thanks, Neal, and good morning, everyone.

As we've previously reported, starting in the first quarter of fiscal year 2011, we changed the method we used to allocate corporate overhead costs to our reported segments. All corporate overhead is now allocated to the segment except for those amounts associated with KMG's operation as a public entity such as Board costs, audit fees, et cetera. The allocation is based on segment net sales. We've revised prior-year amount to reflect the current method.

Neal has already covered the top line results. On a consolidated basis, gross profit margins were 28% of sales compared to 37% of sales in the second quarter of fiscal 2010. We were impacted in the first quarter by rising raw material costs in the Electronic Chemicals business, but did not respond with a pricing action because of all the work that our customers were undertaking to re-qualify our product as a result of our plant consolidation initiative. Raw material costs continued to increase in the second quarter putting further pressure on margins, and we responded with a global price increase that is effective during this third fiscal quarter.

Additionally, gross profit margins were adversely impacted during the quarter by the duplicative plant costs in our Electronic Chemicals business that Neal described earlier. The second quarter was the peak period in terms of these duplicative plant costs since we had to fully gear up our expanded Hollister and Pueblo locations while continuing to pay for the operation of the two contract manufacturing locations operated by General Chemical and Air Products on our behalf.

The costs associated with the Air Products contract manufacturing location should be eliminated at the end of June. At that point, the costs associated with the General Chemical contract manufacturing location will be reduced to the production of just one product group, which is

consistent with our original integration strategy. It's worth noting that we operate with approximately 60 days of inventory in the Electronic Chemicals business, so there will be about a two-month delay between the time that manufacturing costs decline and that we realize the benefit on our income statement.

Gross profit margins in the second quarter of fiscal 2010 benefited from a residual effect of favorable market conditions in the Creosote business.

Over the first half of fiscal 2011, we were successful at repositioning the company in the Creosote marketplace following the consolidation of our Creosote customer base. The results of the execution of this strategy has been higher volumes and somewhat lower margins adversely impacted our gross profit margins relative to year-over-year comparisons, but benefiting total gross profit dollars and a long-term strategic position of the company. We have recently begun to see the higher sales volumes we were expecting for Creosote during the second quarter and we expect to see continued strength in this business through the second half of the fiscal year.

Gross profits increased by 9% to $18.3 million in the second quarter compared to last year's $16.7 million due to higher revenues, which were offset by the lower margins discussed above.

Second quarter distribution expenses were $7.4 million compared to last year's $4.4 million. As a percentage of sales, distribution expense was 11% of net sales compared to 10% in the second quarter of fiscal 2010. Most of the increase in distribution expense can be attributed to the 44% year-over-year increase in quarterly revenues, mainly from business associated with the General Chemical acquisition.

While an estimated $215,000 of the increase in distribution expense was related to higher diesel prices, which are not expected to recede in the near future, the majority of that increase is due to a temporary transportation lane inefficiencies resulting from our production consolidation project and short-term supply shortages in the Electronic Chemicals business, as well as elevated steaming and rail car cleaning costs in the Creosote business.

As Neal noted, we anticipate making significant progress at reducing distribution expense in the Electronics Chemicals business during the second half of fiscal year and the other temporary situations impacting distribution expenses during the second quarter have already been alleviated.

SG&A was $6.1 million compared to $5.4 million in the prior-year period. The increase was fully attributable to the Electronic Chemicals business and specifically the most recently acquired business in that segment. That increase was actually offset by small SG&A reductions in other areas.

As a percent of sales, SG&A declined to 9% from last year's 12%. For the second quarter, operating margins were 7%, a decline from 15% in 2010 as a result of the gross margin pressures and distribution pressures experienced during the quarter as previously explained.

Second quarter results included approximately $172,000 of charges for the retirement of certain equipment we owned at General Chemical's Bay Point facility. Depreciation and amortization for the first half of the fiscal year was $3.8 million.

As we reduced operations in Bay Point in conjunction with our manufacturing consolidation, we identified certain equipment to be taken out of service and changed the estimated useful lives of the equipment to remain in operation at that location. The depreciation and amortization expense for the first six months of fiscal 2011 includes the effects of those changes.

Interest expense was $599,000 in the current quarter compared to $535,000 last year, reflecting the higher debt levels associated with the March 2010 acquisition.

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Our income tax rate was 38.1% in the second fiscal quarter versus 37.3% in fiscal 2010. We project that our income tax rate will remain flat at those levels for the balance of the fiscal year.

For the second quarter, net income was $2.4 million or $0.21 per diluted share versus $4.0 million or $0.35 per diluted share in the second quarter of 2010. Net working capital at January 31st was $43.7 million, including $4.5 million of cash. We continue to pay down borrowings, reducing our long-term debt by $7.0 million to $52.3 million during the first six months of fiscal 2011. Our current borrowings include $17.0 million drawn on our $50 million revolving credit facility and $15.3 million on the term loans. Currently we pay an interest rate equal to 2% over LIBOR on our term loan and revolver borrowings.

For the first six months ended January 31, 2011, shareholders' equity was $92.2 million or $8.03 per diluted share. Cash flow from operations was $10.4 million for the first half of 2011. Additions to property, plant and equipment was $4 million for that period, including $3.4 million invested in our Electronic Chemicals manufacturing base, as previously mentioned by Neal.

And now, I'll hand it back to Neal.

**J. Neal Butler, Chief Executive Officer and President**

Thank you, John. Before handing the call over for your questions, I'd like to provide you with some final thoughts and summarize our expectations for the remainder of the fiscal year. Although we experienced somewhat lower profitability than anticipated in the second quarter, the market trends we see in each of our business areas are very encouraging.

Additionally, the consolidation of our U.S. Electronic Chemicals manufacturing is going very well. To that end, I would like to congratulate and thank the global team of KMG employees that have worked together to make this integration project a success.

We've passed a crucial point in the project, and by fiscal year-end, we'll see the rewards of the team's hard work as we begin to harvest the projected synergies resulting from our consolidation efforts.

While we anticipate net income in the second half of the fiscal year to significantly exceed the comparable period of fiscal 2010, we now project net income for the full fiscal year to be in line with our fiscal 2010 results.

We have confidence in our strategy and believe it will continue to provide opportunities for sustained growth in revenues, earnings, and cash flow. Our proven ability to acquire, optimize and grow niche specialty chemical businesses and maximize free cash flow from operations, allowing us to continue to fund both acquisition and organic growth initiatives, repay borrowings and pay quarterly dividends.

Based on the shared confidence of the management and the Board of Directors, we increased the dividend by 25%. It is the objective of the Board to maintain a dividend growth rate that is reflective of the long-term growth rate projected for the company's earnings.

And lastly before answering your questions, I'd like to point out that we will be presenting at the Sidoti 15th Annual Emerging Growth Research Conference in New York on March 22nd. We hope to see some of you there. We'll be posting the slides from our presentation on our website.

John and I appreciate your participation today, and we now open the floor for questions.

## QUESTION AND ANSWER SECTION

Operator: Thank you. We will now conduct a question-and-answer session. [Operator Instructions] Our first question comes from Eric Glover with Canaccord. Please state your question.

**<Q – Eric Glover>:** Hi. Good morning.

**<A – J. Neal Butler>:** Good morning.

**<Q – Eric Glover>:** Just looking at the operating expenses in the fiscal second quarter, it was about $13.5 million. Do you think that that run rate or level is what we should sort of be expecting for the third quarter and fourth quarter?

**<A – John V. Sobchak>:** Well, good morning, Eric. It's John, and thank you for participating today. As we noted, the operating expenses in the second quarter included distribution expenses that were elevated due to some temporary charges, but also some inefficiencies that are going to be worked out in the second half of the year.

We expect to make some minor progress in terms of the inefficiency, and the temporary charges will be alleviated. So we'd expect to see a decline from that in the third quarter and a further decline in the fourth.

**<Q – Eric Glover>:** Okay, great. And then in the Electronic Chemicals business, I believe you mentioned growth expectations for fiscal 2012 of about 8%.

**<A – J. Neal Butler>:** Yes, we anticipate 5% to 8% is what we ranged it at, yes.

**<Q – Eric Glover>:** Now that seems conservative to me, and I wanted to get your input on that, given that you've raised prices 5% to 20% across the board, you have a new customer coming online, and there should be, theoretically, some organic growth in the business. So if you could just comment on that.

**<A – J. Neal Butler>:** One of the things when we're looking at the part of the organic growth anticipation that we're referring to is volume related. We see that the volume moving up to that kind of level. So I go back to the point that I think the increase when we talk about an organic growth of 5% to 8%, we're talking about a 5% to 8% increase in demand.

**<Q – Eric Glover>:** Okay. And then final question on Electronic Chemicals. Can you comment on whether the growing shift toward iPads and tablets affects your business at all, either positively or negatively?

**<A – J. Neal Butler>:** Well, it's difficult I think for us to quantify because I really can't answer that question very definitively. I think as we go forward though, the most significant thing for us is any time there is a shift to more miniaturized semiconductors, they go from the 45 to 32 to the 22 nanometer, when those shifts are made, it tends to play into our sweet spot. So as they move to a requirement for higher purity levels, then yes, it benefits us.

We go back to the – the two critical elements for us within that sector or the actual number of semiconductors that are produced and just basically sort of square footage, and the second thing is the purity level requirements for the product – or for the acids and the solvents.

**<Q – Eric Glover>:** Okay. Thanks a lot.

Operator: Our next question comes from Arnie Ursaner with CJS Securities. Please state your question.

**<Q – Arnold Ursaner>:** Hi, good morning, a couple of follow-up questions, if I can. You mentioned 5% to 8% demand growth in Electronic Chemicals. So, given the price increases, I guess you're suggesting is low teens to high teens revenue growth. Is that the right way to think about it?

**<A – John V. Sobchak>:** Sorry, Arnie. I didn't quite follow that, the -

**<Q – Arnold Ursaner>:** Well, if demand is going up 5% to 8% and prices are up 5% to 20%, somewhere embedded in that mix would be revenue growth of low teens to high teens.

**<A – John V. Sobchak>:** Oh, I understand. No, actually, what we were saying was that given the price increases that have been announced, and then also the additional demand that's going to be coming on later over the next 12-month period, we anticipated the revenue for KMG Electronic Chemicals to go up 5% to 8% over this 12-month period.

**<Q – Arnold Ursaner>:** So, again, going back to the question you were just asked, if prices were up that much, you're not implying very much unit volume growth at all.

**<A – John V. Sobchak>:** The additional volume that's going to be coming on stream from the additional semiconductor manufacturing facility comes on mid-way through the next 12-month period. So there's a kind of a staging-in over the 12 months.

**<Q – Arnold Ursaner>:** Okay. Can you give us a sense of where Pueblo's current utilization is, and perhaps to sum up all the various expenses you've incurred, which are somewhat atypical, can you quantify the duplicate expenses and atypical expenses you've been incurring?

**<A – John V. Sobchak>:** On the distribution expense side, this is a broad estimate, but for the Electronic Chemicals, basically, we estimate that the inefficiencies from combining those two operations, until we can optimize the various transportation lanes, has added about 1% of revenues, so that would equate to about $360,000. That included some of the supply disruptions that we incurred during the quarter for – we had some supplier disruptions that caused some additional charges on the distribution expense side. So that's kind of an all-encompassing number.

**<Q – Arnold Ursaner>:** You've previously talked about an operating margin target in Electronic Chemicals of 15% as you exit 2012. Given the new businesses you've won, the changes in cost structure, and the fact that you have made that operating margin goal or target expressed six or nine months ago, is that still your goal? And if not, what is your current operating margin goal?

**<A – John V. Sobchak>:** Our current operating margin goal for Electronic Chemical remains 15% before corporate allocations, and we did experience some raw material cost increases that we talked about during the call and the price increases that we had implemented during this quarter was meant to address those raw material cost increases and keep us on target for that 15%. The 15% also includes the 200 basis point improvement, and we – you had mentioned exiting 2012, it would actually be – we would expect to start to see that in the first quarter of 2012, fiscal 2012.

**<Q – Arnold Ursaner>:** Thank you. Just reminding you, I don't think you gave me the answer on Pueblo current utilization.

**<A – John V. Sobchak>:** So, Pueblo was previously operating about 55% capacity utilization, and we expect it to get up just above 80% when all the product consolidation is completed, and we're about 95% through that product move with Pueblo.

**<A – J. Neal Butler>:** Yes, Arnie, it's been phasing towards that 80% over the course of the last six months, and we anticipate that movement being completed in its entirety at the end of June. So we'll be at that 80% capacity in June. And as John said, we're the majority of the way there now.

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**<Q – Arnold Ursaner>:** Thank you very much.

**<A – John V. Sobchak>:** Yes, in terms of volume, Arnie, there isn't much volume left to move over to Pueblo, but the equipment that is being disabled in Bay Point as a result of that product move still needs to be rinsed and prepared for removal. So the costs at Bay Point will continue for a few more months until that's completed.

Operator: Thank you. [Operator Instructions] Our next question comes from Steve DeNichilo with ACK Asset Management. Please state your question.

**<Q – Stephen DeNichilo>:** Hey, guys, how are you doing?

**<A – J. Neal Butler>:** Fine, how are you doing today?

**<Q – Stephen DeNichilo>:** Good. I just want to be clear, first question, talking back to this 5% to 8% revenue growth. It's not – you're not giving fiscal 2012 guidance. You're giving over the next 12 months, correct?

**<A – J. Neal Butler>:** That's correct.

**<Q – Stephen DeNichilo>:** Starting from today or the end of your second quarter.

**<A – J. Neal Butler>:** Starting – that's correct.

**<Q – Stephen DeNichilo>:** Okay, so then if we look at the last four quarter run rate in Electronic Chemicals, you've been at about $140 million. And I'm also assuming this new work at the Samsung plant would not start over the next, call it, two quarters, correct? So the growth of 5% to 8% is really going to be fiscal 2012, your first two quarters of fiscal 2012?

**<A – J. Neal Butler>:** We'll see a portion of that because it obviously is phased in, so you – we'll work our way towards that. So we'll actually see a little bit of that in the third and fourth quarter. The majority of it manifests itself in the first quarter of next year.

**<Q – Stephen DeNichilo>:** Got it. And are you willing to give any quantification as far as the revenue impacts of that new business?

**<A – J. Neal Butler>:** No, we really aren't in a position to quantify what that expectation is, which is the reason we ranged the organic growth forecast, and at this juncture, that's probably about as definitive as we can be.

**<Q – Stephen DeNichilo>:** Right, okay, and your price increases, they covered the gamut of all your different products in all Electronic Chemicals, correct?

**<A – J. Neal Butler>:** Yes, it was across all the products, and it was global. I mean, it was not just U.S. based.

**<Q – Stephen DeNichilo>:** Okay. And then do you have any commentary on unit demand because I think there is – to Arnie's point earlier, if you're taking price increases anywhere from 5% to 20%, plus this new business, that overall 5% to 8% growth, is that just you being conservative or is there a different unit forecast embedded in that?

**<A – J. Neal Butler>:** I think we're looking at – we look at the 5% to 8%. What we're looking at is a growth rate that we feel fairly comfortable with by virtue of conversations and projections we've got from our customers.

**<Q – Stephen DeNichilo>:** All right, okay. Okay, then just changing topics quickly, on Creosote, more or less $3 million in segment income. Is that a good run rate to use going forward or do you see acceleration?

**<A – John V. Sobchak>:** I'm sorry, would you repeat the question please?

**<Q – Stephen DeNichilo>:** Just looking at income on the Creosote division of about $2.8 million. Is that a decent run rate going forward or could you see some acceleration there?

**<A – John V. Sobchak>:** Well, we would expect to see some acceleration on the top line, some revenue because we saw the strengthening of Creosote volume sales kind of mid way through the second quarter. But also, we're anticipating some incremental improvements in the margins. Our margins in the Creosote business improved notably from the first quarter of fiscal 2011. They are still a little bit shy of our target.

**<Q – Stephen DeNichilo>:** All right, okay. All right, thank you very much, guys

**<A – J. Neal Butler>:** You're welcome.

Operator: Thank you. Our next question comes from Daniel Rizzo with Sidoti & Company. Please state your question.

**<Q – Daniel Rizzo>:** Hey, guys. You might have answered this, but are you planning on or do you anticipate having to raise prices in the Creosote or Penta segments as well?

**<A – J. Neal Butler>:** At this juncture, Dan, we don't see a price increase certainly within the next two quarters and that's not a prediction. Post second quarter or post after two quarters, but we don't see a price increase right now in any of those products. As John said – I mentioned a moment ago, we have seen some improvement in our unit margins, a number of things we've been doing to improve the unit margins on Creosote. We will probably continue to see a slight increase or slight – a further improvement in that margin in the next two quarters.

**<Q – Daniel Rizzo>:** Okay. Thank you.

Operator: Ladies and gentlemen, there are no further questions at this time. I'll now turn the conference back to management for closing remarks. Thank you.

**J. Neal Butler, Chief Executive Officer and President**

Well, again, John and I want to tell you how much we appreciate everybody coming on the conference call with us today and we look forward to seeing a number of you, hopefully, in New York shortly. So, good day. Thank you.

Operator: Thank you. This concludes today's conference. All parties may now disconnect.

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