



SOUTHERNSUN ASSET MANAGEMENT
1st QUARTER 2010 Conference Call
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Chairperson: Michael Cook (CEO/CIO)

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the SouthernSun Asset Management First Quarter 2010 conference call. During today's presentation, all parties will be in a listen-only mode, and following the presentation, the conference will be opened for questions. If you have a question at that time, please press the star followed by the one on your touch-tone phone. You may withdraw this question by pressing star, two. And if you're on a speakerphone today, it will be necessary to lift the handset before making the selection.

And now I'd like to turn the conference over to Mr. Michael Cook, Founder, Chief Executive Officer, and Chief Investment Officer. Please go ahead, sir.

Michael Cook: Thank you very much, and good morning, everyone. We are glad that you could join us this morning, and hope that the time that you're dedicating to this call will be valuable to each and every one of you.

As you will notice on slide one, we'll have three participants from our end today; myself, Michael Cross, who is a Managing Director and Analyst of our firm, and Phillip Cook, who is our Director of Research.

By way of update, slide two will give you an understanding of where we closed as of the month of March and the first quarter with respect to assets under management. I'll not bother to go through the pie chart. I'm sure you can read that for yourself. We did close the quarter at about 1.46 billion. As of the close of business yesterday, we closed a good bit over 1.5 billion, and actually are nearing our peak in assets under management that we achieved in June of 2008.

I would make one mention that Rebecca has reminded me of, and that is to remind you that, as you might expect and as we have done in the past, we are becoming very close to capacity with respect to our small cap strategy. If you have any questions about that or want further details, I would encourage you to get in touch with Rebecca Smith, our Director of Client Relations and Business Development.

So no real changes in slide three to mention of, so we'll really move on into the call. As you'll notice, I'm going to try to cover some broad topics this morning, and then the intent is that with each participant on our end, we'll drill down just a bit further so that you'll—you will at the end hopefully have a sense of everything

from very macro issues to granular, and a sense of things that are on our plates that we're keeping in mind as we go about our work each and every day.

Last Monday I encouraged our entire staff in our weekly staff meeting to stop for a moment during their busy day and try to recall what they were feeling and thinking just over a year ago. I noted to them that this is one of the many advantages of maintaining a journal, which I do, as it really assists one in such an exercise. It's good to remember, not only because it may help us to avoid repeating certain mistakes, but it in some sense, if allowed, might even assist us in placing our present circumstances in a more objective light.

Amid this exercise, we all agreed that an overwhelming sense of gratitude for the trust and confidence showed us by our clients, you, may well be one of our strongest memories. You can be assured that's a memory we will never forget.

I'd like to begin this morning by casting really a broad net, but limited in a sense, over our portfolio and the globe, that I hope you will find not only helpful in better understanding the conditions under which our portfolio companies are currently operating, but will also be generally relevant to your investment thinking. You'll hear over the next 30 or 40 minutes much about portfolio performance for the past 12 months, as well as some noteworthy details about a few of our portfolio businesses.

Through yesterday's close, our Small Cap composite was about up 17.7% for the year-to-date, and our SMID Cap composite was up about 19.4%. From a strict price perspective, it's clear we have come a long way since March the 8th of last year.

The questions we are asked most of these days might be with such strong performance over the past 13 months, is it too late to commit new money, and/or, should we take profits now? Well, that is a reasonable question. We believe our current businesses, and the ones we are looking at with respect to potential opportunity in the future, offer interesting upside, and we have within the portfolio itself taken profits when the marketplace has become overly enthusiastic.

Further, I'd like to make three points. Please remember that last year when we discussed the impact of a credit freeze on the marketplace pricing, this created, point two, a vacuum; a void, which needed to be filled. It likely has been filled on a broad basis, and quite possibly, in some cases, has been overfilled. But, three, as we suggested also last fall, at some point fundamental strength and execution by management would matter most in the marketplace sponsorship going forward. We believe this environment, the environment we're in today, plays extremely well to one of our core strengths as a firm as we have shown over the past 20 plus years.

I would like to cover three topics very briefly. The first is a reminder of the core of our philosophy and approach. The second addresses a variety of uncertainties

facing our portfolio company management teams. And third and finally, a point for observation and analysis while the year unfolds, as elections of note take place across the globe.

First, a reminder of portfolio business essentials. As most of you know, our primary focus at this firm for over 20 years now has been on the quality of businesses; quality not necessarily defined by certain textbooks or others out in the marketplace, but quality defined by strict views that we have with respect to financial strength, which would be the ability to generate discretionary cash and balance sheet management.

Second, niche dominance. Our business is positioned in strategic niches, with opportunities to grow. We think in this point in time in the business cycle that you will see, as we mentioned in last quarter's call, multiple businesses within our portfolio going out and finding interesting opportunities in spaces that will either be additive, or put them in new lines of businesses that they can leverage. And in our view, cash is king. So the balance sheet work that was done over the past year and months by most of our portfolio businesses is really paying off for them, I think, in this environment.

And three, and obviously as a lead-on from that, management teams that have a significant ability to adapt irrespective of the environment in which they must operate. We're looking today more specifically at management teams whose incentives are appropriately aligned with us the owners.

The second area, as I mentioned, would be the variety of uncertainties facing our portfolio companies' management teams with respect to operating environments. There are basically four areas that I'd like to highlight quickly.

First of all, each and every company is going to have to deal with the newly passed healthcare legislation. It's one thing to legislate, it's another thing when the reality of the outcomes of the legislation have to be executed, and we're now in that mode. As you are aware, a number of companies have already announced write-downs with respect to the new legislation.

While we don't expect significant write-downs within our portfolio companies, we will say that we expect each and every one of them to sense or feel some economic impact along the way. I think there's a lot that's yet to be known, and so we really will reserve our analysis in terms of the full impact as time and execution unfolds.

The second area is with respect to the regulatory environment in banking and finance, which really impacts every single business. But specifically, we would point to the fact that as last year went along, we pointed to the issue where numerous banks, as a result of new capital requirements, were beginning to fail. And as a matter of fact, in 2009 we had a record number of bank failures. We've already seen 42 bank failures this year; the latest being this past weekend in South Carolina. Our estimation, as you recall at the end of last year the first of this year

was potentially up to 140 banks could be taken over or fail during 2010. We're already 42 on the way there.

There are two issues that we focus on at this point with respect to financial institutions, and the prospects of, really, the two pieces of legislation that are out there and are being discussed, I think one only seriously at this point.

One is that, as we've discussed in the past with you, we think there might be significant opportunity with respect to the fact that our belief is there are approximately \$650 billion in commercial real estate mortgages that will be coming due in the next 18 to 24 months. While we think that this has, in some sense, been the back end, if you will, of many hit and miss discussions in the marketplace and in the media, it's a very real issue. And as we were discussing internally amongst our analytical team yesterday, we're not completely certain that the whole housing mortgage issue has been fully disseminated, and fully alleviated within the system, and therefore it makes this commercial real estate situation, we think, all the more significant. We believe that this potentially could offer tremendous opportunity for those with cash in the commercial real estate space down the road. But we think that day is not yet here.

The second area with respect to banks is a segment of banking that, generally speaking, was overlooked because they didn't deal in the sub-prime industry, and that's the local and community banks who, frankly, were involved predominantly in lending to rural areas and farmland. Some of this farmland was for row crops. Obviously some of the farmland was for livestock. But if you'll think back to 2008 and commodity pricing in the marketplace, rents were substantially higher at that point than they are today. If you're looking at rents for this fall with respect to soybeans and corn, I can assure you they're not nearly as high as they were in 2008. And what our fear is that, particularly on land that is livestock land, we have a sense that where liquidations need to occur on large plots of livestock land, that the reappraisals of property would find that the loan values are actually substantially higher than the value of the loan. So the loan differential there, we think would be upside down, and we think this could be problematic for numbers of community banks.

The third area I think of in regulation, which we've discussed at some length but we'll just touch on today, continues to be energy. The carbon tax concept has not gotten a lot of traction to this point, but certainly could in the days that lie ahead. We still focus as a firm with respect to the businesses in our portfolio, and the ones that are really attractive to us on the facts that large commercialization of alternatives is still very, very illusive, and we think that we're still some lengthy time in the future away before we have a multiple of significant commercializable alternatives to fossil fuels. That being said, we think that there are some interesting alternatives being offered, and we continue to like our businesses that have some relationship to that.

The next area is with respect to food. And the regulatory environment with respect to food takes on really two roles. One is indirect, and that's the legislation

that's taking place with respect to commodities trading. We think that that's an area of serious discussion in Washington, and at the commodities exchange trading floors. We expect to see some action on that front this year, and we'll continue to keep an eye on what that means in the marketplace.

Obviously what we have seen in that arena with the credit freeze and the deleveraging, that marketplace has become substantially more fundamentally driven. We actually like that marketplace, because to some degree, it's a little bit more predictable from an input standpoint. We don't think it'll always be that way, but certainly at this point in time we think that it's much more representative in that arena.

Also, what's not being talked about are two big pieces of legislation and/or policies, if you will, that are yet to be determined, and that is a new farm bill in the US, and a new common agriculture policy in the EU. These will have an enormous impact on shaping global agriculture movements and policy, I think, in the coming decade.

And then finally with respect to food, we would just point to the ideas of protectionism and the marketplace. We have seen an environment in the past year where most every door, even traditional doors that were closed with respect to imports, or closed simply because of high tariffs, were opened.

However, we now believe that as we see pricing come back into the marketplace, we will see an ever-growing difficulty in resisting closed or protectionist policies; avoiding those protectionist policies by many countries that have traditionally done so. On a positive note, we have seen China and Russia open up their doors recently for support, and that's encouraging.

The final area that I'd like to cover would be what we're looking at and observing with respect to global elections. There are possibly 33 presidential elections across the globe in 2010, over 40 parliamentary elections, and midterm elections in the United States. Countries like Brazil, Philippines, and the UK will have elections this year, as well as Hungary and Chile. Poland obviously was slated for elections this year, and now obviously is looking at a very unexpected scenario, and having to fill a position probably sooner than they had anticipated.

But there are two specific things. As you recall, our businesses do business around the globe, and so there are two things that we focus on with respect to politics that catch our eye, and one is what are the priorities of any incoming body, whether it be parliamentary or whether it be presidential, whether it be a reelected body or newly elected body, it doesn't mean that their priorities are the same as they have been. In other words, in order to get reelected, they may have had to change priorities.

I hope this was helpful from a general standpoint. I'm going to turn the call over to Mike Cross now to drill down just a bit further. Mike?

Michael Cross:

Thanks, Michael, and good morning. Well, moving on to slide five of the presentation now. As you know, the performance of our Small Cap and our SMID Cap strategies has been very strong on both an absolute and a relative basis. And in the 12 months that ended March 31st, our Small Cap portfolio was up 88.3% in gross terms, and our SMID gross returns were up 91.7%, handily beating the Russell 2000 and the Russell 2500, which Phillip will cover a bit later in the call.

We believe that our significant outperformance was driven by the fundamental strengths of our portfolio companies, and we feel as though each company's fundamentals will continue to make the difference in investment performance going forward.

Prospective investors often ask us, in which types of market environments does SouthernSun perform well? Our answer is consistently that we believe our investment philosophy and process will be rewarded when fundamentals matter, as opposed to periods of significant volatility in which general market news or sector or industry news is the big driver. Our process drives us to select companies that have strong leadership teams with track records of being able to articulate and then execute a clear strategy. And our process leads us to companies that dominate in a particular market niche, whether it's in adhesive dispensing, as is the case with Nordson, or the farm and ranch retail space, in which case it's Tractor Supply Company. That's why our investments in the consumer discretionary space, for example, can perform well even with a generally weak consumer, and even in a relatively weak economic environment.

As part of our process, our team spends a lot of our time meeting with the management teams of our companies and prospective companies, and we travel to plants and facilities to make our own assessments as to whether or not their strategic plans are achievable with the people and resources that they have in place. If we're confident that the management team has a well thought out plan and they can execute, then we remain committed to that company. And if not, we move on.

Our process involves spending a lot of time with our companies, and each quarter we like to tell you what we're hearing from the management teams of our portfolio companies. Just as a reminder, in the last quarter we told you that we were hearing that demand had bottomed. Last year it was really about executing on the basics in a time of depressed demand. Companies were reducing fixed overheads; that is their people costs, their SG&A expenses, and they were very conservative on capital expenditure spending, and closing and consolidating facilities where appropriate. They were really focused on generating cash and improving their balance sheets by paying down or restructuring debt, while at the same time trying to stay on offense in terms of positioning themselves to take advantage of the return to sales growth.

In the first part of this year, many of our companies are beginning to point to and forecast moderate increases in demand for their products and services, though

we're not hearing this consistently across the entire portfolio. In general, we think that 2010 will be about improving operating leverage as volumes come back, and that most companies will remain conservative with regard to expenses and capex. Many are looking for the right bolt-on acquisitions, and most are accelerating their growth and profitability strategies.

Back to demand a bit. As I mentioned, we're hearing from many of our companies that demand has improved or is improving. Nordson, for example, which is a company that manufactures adhesive dispensing equipment and other advanced technology products, and also Lubrizol, a leader in the fuel and oil additives market, specifically pointed to strength in their Asia Pacific demand. Nordson's Asia Pacific demand was up more than 100% in the 13 weeks that preceded their conference call in late February, and Nordson should continue to benefit from following their key customers, which are Proctor & Gamble, and Kimberley-Clark, as they pursue growth opportunities in China and other emerging markets.

One of Nordson's lead products is adhesive dispensing equipment used to manufacture baby diapers, and other hygiene products that are increasing in usage in developing markets. In a recent visit with Nordson I learned that actually less than 25% of the world's babies are diapered, so there's a lot of room for growth in that market, and Nordson should stand to benefit.

Several other companies have echoed that they've seen an increase in Asia Pacific orders, and as we have stated several times before, our portfolio has relatively more exposure to emerging markets than the Russell 2000, and we think that this will continue to be a favorable characteristic of our strategy.

While there's evidence of some slight improvement in the retail sector, our companies that have retail exposure are performing quite well, proving that it's much more important which companies we own as opposed to just being in the right sector. Jo-Ann Stores, for example, continues to grow market share as more Wal-Marts exit the fabric business, and as Hancock, one of their chief competitors struggles. Jo-Ann Stores is expecting same store sales increases this year, and we love the fact that they continue to execute their growth strategy with internally generated cash.

Tractor Supply Company recently made a mid-quarter announcement raising guidance for the first quarter, and for the full year. They continue to execute and they continue to grow, and again, with their own cash that they generate internally.

With Columbia Sportswear, we expect their top line to come back stronger than other clothing retailers because they've made investments in more differentiated products, they've invested in new retail outlets, and because of improvements they've made in their footwear offering.

At Middleby, which is a company that dominates the market for cooking equipment on the hot side of commercial and institutional kitchens, they've begun to see some strengthening in their food processing business, and in their institutional businesses servicing schools and colleges and hospitals.

Michael Cross:

And also Chicago Bridge & Iron, which is an engineering and construction company specializing in energy-related infrastructure projects, is coming off a very successful '09 where they booked over \$6 billion in new orders. And we think that with oil at \$80 a barrel, if that holds at that sort of a level, that projects will continue for Chicago Bridge & Iron at a pretty healthy pace.

But that's not true across every company in the portfolio. Some of our companies' sales remain sluggish, and we think that this lack of consistency across all of our portfolio companies is consistent with really the asymmetrical rebound in the overall economy. We think it's going to take some time before we see growth in railcar demand, or strength in commercial or residential construction, or a more sustained pickup in auto demand. And for that reason, some of our stocks, like Trinity, which the market perceives as only a railcar company even though they have strong and profitable divisions that make barges, and wind towers, and construction products, and Koppers, which is tied to business levels in the aluminum industry, which are tied to the construction market will not see near-term sales growth. And because these companies are not forecasting near-term growth, they've not seen the same appreciation in stock price. But our investment time horizon is longer-term, and we feel there is significant long-term upside in these names.

As far as profitability outlooks, most of our companies continue to be very conservative, believing that the rewards will be greater for those that under promise, and subsequently over-deliver versus those that lead with aggressive outlooks.

And with regard to spending and hiring, because of the uncertain regulatory environment that Michael talked about, and the lack of confidence regarding the collective strength of consumers to drive economic growth, our companies are remaining cautious and conservative with respect to capital expenditures and hiring. And some, like Nordson and some parts of Middleby, took time during this recent downturn to relay out manufacturing facilities and to improve efficiencies, which means that when demand does come back, they can handle more demand with fewer people. Most are choosing to spend capital only on projects that will generate quick paybacks in terms of cost reductions, or projects that are driven by safety or regulatory changes.

Several of our companies are looking for the right acquisitions; opportunities to grow market share, and perhaps improve manufacturing flexibility. Koppers is a good example. Koppers recently acquired Cindu Chemicals, which will help

them grow their share in the European coal car distillation space, and it'll give them flexibility on where they strategically utilize manufacturing capacity. Actually, Phillip and Elliot and I will be touring Cindu's facilities in Amsterdam next Monday.

Other companies in the portfolio that have consistently generated cash have been hunting for the right acquisitions over the last year. Many believe that multiples are still relatively low, and if they're not able to get the target for much of a discount, they could be buying the sales and then shutting down or consolidating operations.

We were at one of Middleby's locations earlier this month. Middleby recently purchased Anets. This is a food frying manufacturer. They closed it down after they bought it and consolidated the manufacturing with their existing fryer division, which is PITCO.

So as I previously said, while the overall market has performed well and SouthernSun has outperformed even the strong market, we believe that we're in a period where the fundamental strength of companies, and market position and strong management teams will making a difference in terms of stock price. And in this environment, stock selection matters. We're confident in our process and in our overall portfolio.

We think this is especially important, because there are a number of impediments to a pervasive and robust economic recovery. First and foremost from our perspective is weak consumers. While the economy is no longer shedding hundreds and thousands of jobs every month, we're not adding jobs at that pace either. Unemployment's going to—will not come down quickly, and until a lot more people are working and spending, the consumer segment will not be healthy. Having said that, we have companies in our portfolio that are exposed to consumers, such as Tractor Supply and Jo-Ann and Columbia, and in fact, they are so strong that we believe they'll continue to grow and deliver results even without a broad-based consumer driven recovery.

Another overarching hurdle, as Michael mentioned in his comments, is the concern over more and more regulation, and the uncertain impacts of these regulations. This regulatory confusion and uncertainty is clearly affecting the banking sector, and the uncertainty of regs coupled with the continued overhang in residential, and more importantly, commercial real estate is constraining lending, and without lending, clearly the economic recovery will be tempered.

We also continue to keep a close eye on energy and environmental legislation because of the potentially far-reaching implications of the changes in the energy mix, investments in that space, and even the cost to our companies.

Really, a heavy policy hand either enacted through legislation or the EPA could be costly to the general recovery and to some of our companies, but in other ways, action on items like the renewable fuel standards could lead to opportunities for

Darling, which is our company that's a renderer of animal carcasses and a major player in the restaurant grease collection space.

We also believe that European economies will continue to lag behind the US, and especially behind growth rates in emerging economies. Problems with sovereign debt in many European countries, and the real likelihood of greater protectionism could also lead to turmoil in a less than robust global recovery. Because of these issues in more mature economies, and as we've mentioned several times, we really like the exposure to emerging markets that we have in our portfolio.

For all of these reasons, we believe that stock selection matters a great deal. Some companies will shine and their results will be rewarded. And finding companies that are likely to perform well in most environments is a big part of what we do at SouthernSun.

I'll now turn the call over to Phillip, who will give more data on our overall performance, and some of the key drivers and detractors in the portfolio this quarter. Phillip?

Phillip Cook:

Thanks, Mike. Moving to slide six, and I won't spend too much time here on slide six and seven, which show our Small Cap and Mid Cap composite performance. Slide six, I will note a couple things. First, after a relatively slow start to the quarter in January, we finished the first quarter up more than 13% in the Small Cap, beating the Russell 2000 Index by more than 4%. I'd also like to note that the Small Cap strategy continues to outperform both the Russell 2000 and the 2000 Value on all relevant time periods; one, three, five, ten, and since inception.

Looking quickly at slide seven as well, we'll see the same information for the SMID Cap strategy. First quarter starting a little bit slow, picked up and ended the quarter up 14.4%, beating the Russell 2500, and the Russell Mid Cap by more than 5%. And this strategy as well continues to outperform both benchmarks on a one, three, five, ten, and since inception basis.

For more detail on performance, we've included additional information in the Appendix to this presentation.

Now we're going to take a look at the top contributors and detractors for the first quarter. So moving to slide eight, the top five contributors and top five detractors for the quarter. From performance, as you can see, we only had two positions that were actually detracting from the absolute performance of the portfolio. That was James River and Koppers. The other three detractors were more relative underperformers for the quarter.

So moving on to the details of a couple of our top contributors. Looking at slide nine, Smithfield is one that, as many of you know, we've owned for quite some time, and has gone through probably the roughest period of—industry period the last two years that it has seen in decades, really, and we're finally starting to see those fundamentals turn around. Prices both now and in the futures market are

really looking encouraging. The company through a lot of hard work and effort ahead of the struggles they've seen over the last couple of years, went out and closed down six facilities ahead of schedule. They're now looking at achieving or maybe even exceeding their targeted \$55 million in profit improvement, and then \$125 million of annual savings on the cost side beginning in fiscal 2011. So the company has continued to do its part from an operations standpoint and an efficiency standpoint, and now the fundamentals of demand and supply are really starting to work in their favor, and during the first quarter the stock was rewarded for those changing dynamics.

I will say that in addition, there was some chatter over the second part of the quarter that COSCO, China's largest food importer may be interested in purchasing the company. COSCO already owns about a 9% stake in the company, and we don't believe that there is anything really pending that would see COSCO come in and buy out Smithfield Foods at this time, certainly not without a significant premium.

Michael Cook: Can I jump in for just a second. Back to the point of remembering a year ago, if most of you who have been with us at least that long will require—remember that it was just over a year ago this week that I was asked to be on Fox Business News because of the H1N1 outbreak and the potential impact on Smithfield Foods. And the question was asked me whether or not we would buy more if the prices went down. They did not call us up to ask whether or not we actually did that, but the fact is we did when the timing was right, and we feel as if that was another instance where the marketplace really misunderstood the impact potential on the business itself. Not necessarily on pork in general, and not necessarily on health with respect to the H1N1, but simply misunderstood the particulars of the business, and as a result, underpriced the business substantially, even though we were looking and facing a really poor environment for the balance of 2009 with respect to pork pricing and with respect to the cost side from leftover feed contracts from 2008.

Phillip Cook: Absolutely, and I think it's important to note that over these challenging years of 2008 and 2009, Smithfield has actually produced record performance on its packaged meats division, and has really only struggled on the hog production side of the business, and that is the side that has now begun to turn around and will move into profitability in the coming 12 months, as well as continuing to enjoy strong performance in packaged meats. So things seem to be clicking on all cylinders there.

Sort of a side note. Along with these positive dynamics that Smithfield is seeing on the hog production side, and the ability of hog producers to generate profits, it usually is very much a positive for another one of our positions, Darling International, because Darling's end products, what they sell, goes into feed for pigs. So now that these hog producers are moving into a period of positive operating income, they're able to spend more money on the fats and proteins that Darling sells, and that should benefit Darling's demand for awhile as well.

Moving on to Columbia Sportswear. Columbia had a very strong quarter in the first quarter where they reported stronger than expected fourth quarter results. They saw a very good holiday season relative to the year before, and they were very conservative on inventory management. Their reorders were very strong and their cancellation rates were down, so that's a very positive dynamic for the company. Management's now expecting, as Mike mentioned earlier in the call, a rebound in demand and sales in 2010. And amidst the top line struggles of last year, a part of the reason for the stock finally seeing some very strong performance is that management continues to execute a long-term strategy that generated a record \$214 million in cash flow from operations for 2009, and is continuing to spend on the necessary long-term strategies of the business, including innovative technologies and product designs, which include two key brands, the Mountain Hardware brand, and the Sorel brand, which although the top line for the company as a whole was down significantly in 2009, both of those niche brands were up for the year and had very solid performance, and should continue to drive the operating profit of the business.

They continue to invest in distribution to improve their cost profile, and they have continued to spend on their direct-to-consumer business, opening up new retail stores and outlets throughout the US, as well as a couple in Canada, and some in Europe as well. And actually, as a side note, Peter was able to visit with the CEO as well as others from management up in Chicago a few weeks ago at the grand opening of their new Magnificent Mile store on Michigan Avenue, and was able to spend time touring their new store and talking about their direct-to-consumer strategy, and that's something that we see as a very positive development for the company long-term.

Moving on to a couple of detractors on slide 10. James River and Koppers both reported weaker than expects results for the fourth quarter. James River continues to really navigate through a challenging environment. They've continued to manage whatever environment they face really well, and they've really turned this business around, and the stock price has done well over that longer-term period. Although they were down during the first quarter, management made the decision to complete a new portal in Central Appalachia, which reduces their transportation costs between mines, and that was completed during the quarter. They also expect to open two high-volatility met coal mines during the year due to strong demand from steel producers. Their EBITDA guidance and EPS guidance for the year is respectable, and it does not include any of the performance from those new high-vol met coal mines.

In addition, we've really begun to see some change in the environment management, and we believe as well that the overall coal environment from a pricing standpoint is beginning to shift. We're beginning to see US producers announcing contracts to ship coal to China, and then another significant movement is that South Africa is beginning to ship more and more to China and to India, and less to Europe, so that dynamic creates positive price momentum for James River's coal.

As Mike mentioned, we will continue to monitor the regulatory response to the situation that occurred during the quarter—actually just a couple weeks ago, I guess; it was after the end of the first quarter. But the mining disaster at the Massey Energy mine in West Virginia was very tragic. James River does not have any mines in West Virginia, and we will continue to monitor the regulatory response to that situation and how it might affect James River Coal.

Finally, looking at Koppers holdings. Koppers was down about 7% during the quarter due to weak demand from the aluminum market, and disappointing 4Q earnings. Part of this was due to a LIFO accounting charge. I won't go into it, but it was a late move by steel producers at the very end of the fourth quarter, which caused Koppers to be left with some raw materials before they could get product out the door on December 31st. But the situation's been reversed, and things are back to normal there.

From a longer-term perspective, Koppers really continues to do a very good job in a challenging environment. They generated record operating cash flow last year of \$112 million. They refinanced their debt, and they really improved their balance sheet as well as the P&L by lowering their interest expense. And then they have continued to take the appropriate strides to strengthen their market position in both their carbon pitch business as well as their railroad tie business, increasing market share in Europe as well as North America and the Middle East.

Mike mentioned earlier their acquisition of Cindu Chemicals. That now gives them approximately 23% market share in Europe, and a very important market for them. It's a very strong export market, and Elliot, Mike, and I are going to have the opportunity to go visit with their Head of European Operations and tour their new Cindu facility next week to see what synergies they might be able to produce out of that acquisition.

So thank you for your time, and I'll now turn the call back over to Michael.

Michael Cook: Thank you, Phillip, and thank you, Mike. Operator, we are now ready for any questions that our listeners might have.

Operator: Yes, sir. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you have a question, please press star followed by the one on your touch-tone phone. You may withdraw your question by pressing star, two. And, again, if you are on a speakerphone, you will need to lift the handset before making your selection. Again, it's star, one to ask a question at this time.

Once again, ladies and gentlemen, if you'd like to ask a question, please press star, one at this time.

And management, I'm showing no—oh, pardon me, we just had one queue up. It's from the line of Drew Dinkmeyer with Captrust.

Drew Dinkmeyer: Hi. My question is regarding—it seems like a lot of the portfolio holdings have benefitted from cost cutting and bottom line efficiencies created. How are the portfolios positioned in an environment where top line revenue growth might become more of a focus? We've seen a market environment where a lot of the—a lot of the companies who have created efficiencies and reduced a lot of the costs have benefitted more than companies who have been able to generate top line revenue growth. If that environment switches, how do you think your companies are positioned?

Michael Cook: This is Michael Cook, and I'll let anyone else jump in on this as well. But our view at this point is as we looked at our businesses, and actually the potential businesses that are on our on deck circle, if you will, as we've looked at them carefully, and one of the things that's important is how you go about cost cutting, because there are certain methodologies that are obvious and easy, and then there are others that can be very strategic, and/or even from a tactical standpoint, beneficial. So it's what kind of cost cutting have they done.

I think one of the interesting things we've seen across our businesses, and I can't speak for all businesses out there, so I can't make a generalized statement that would be worth \$0.25, but with respect to our portfolio businesses, what we were looking for is that they didn't cut to the bone and put themselves in a position that when demand returned, they weren't able to ramp up capacity to compete.

One of the interesting things that we learned over the course of really the second half of last year from some very large companies that are either customers of power businesses or are in joint ventures with some of our businesses, is that credit quality was mattering more than it had in the past with respect to your vendors. It was mattering more with respect to even customers. And so what we found was that as the companies looked constructively at realigning the balance sheet side of their business, even though cost cutting was certainly benefitting the P&L, but as they were really focusing on the balance sheet, what it did was put our businesses, I think, at a very strong position to have—affect contracts with some of their larger customers through the pipeline, certainly because of their financial strength, and because in their realignment process, they allowed themselves the ability to ramp up quickly and meet capacity demands, and be very flexible. So that flexibility in capacity, I think, was key as we worked through any sort of cutting efforts; that they weren't just slashes to cut costs that were necessarily the easiest and most obvious, but that they were very, very strategically thought through.

And so as a result, our view is that with that specific idea in mind, when coupled with the fact that many of our companies have made strategic bolt-on acquisitions in order to expand their opportunity for growth, we really feel like—you know—frankly, whatever growth does come, and we probably wouldn't jump on a big exciting growth—you know—running through the roof bandwagon, but even if it did, I think that they're prepared better than they were when they were running at 96, 97% utilization rates, quite frankly. And a lot of that has to do with the

process environment that they've created as a result of the downturn. Mike, do you want to...?

Michael Cross: I'd just add two other comments. One is that because they've cut a significant amount of fixed costs, when the demand does come back, the operating leverage that they should experience should be significant. So a small increase in sales should generate leverage impact on profitability.

And the other point that I'd make is that while it's true, Drew, that a lot of these companies were in a cost cutting mode last year, several of our companies were still kind of on offense and growing market share. And a few examples of that are Polaris. They've grown market share in this environment, so as demand comes back they'll have a bigger piece of the power sports market, if you will. Koppers has continued to grow market share and make strategic investments in their capacity, as Phillip mentioned. Jo-Ann Stores, Tractor Supply, they're all continuing to grow and they have reduced fixed costs last year. So we think the combination of those is going to be very helpful as top lines return a bit.

Michael Cook: Does that help?

Drew Dinkmeyer: Yes, thank you.

Michael Cook: Thank you.

Operator: Thank you. And, ladies and gentlemen, if there are any additional questions, please press star, one at this time. As a reminder, if you're on a speakerphone, you will need to lift the handset before making your selection.

And we have a question from the line of Rich Wyatt with Plains Capital Bank. Please go ahead, sir.

Rich Wyatt: Hey, guys. Congratulations on the good quarter. Great quarter and great 12 months.

Michael Cook: Thanks, Rich.

Rich Wyatt: My question's just simply the cash level and the—about the SMID Cap and the small strategy. Is that just kind of a function of not wanting to buy into an appreciating market, or is that more of a strategic decision? I think it's like 9% and 12% respectively.

Michael Cook: It really is a function, frankly, of the fact that we do believe that the market has in a point in time been a little overly enthusiastic with respect to pricing based on where we think we are fundamentally in some of the businesses. So, and I guess the long story short is we've taken a little bit off the table, which has created some cash buffer. Phillip, did you have a point that you wanted to make in that arena?

Phillip Cook: The other thing, just as far as the Small Cap is concerned is that, as you're probably aware, CFL, Brink's Home Security, and Chattem were both acquired in the last four months, so we tendered the shares for one of the companies, and sold the shares for one of the other, so that raised some cash.

Michael Cook: That just goes to show you that that's my old mind, once they're gone, I forget them. That did create some cash. I would say that with respect to reallocation of that cash, we have reallocated a little bit of that cash into some of our current names at the proper time, we think, but we also have two or three prospects that are very, very close to being completely worked up to our satisfaction, and you know, potentially ready to go in the portfolio given the opportunity from a pricing standpoint. So we're where we want to be from a research standpoint, but we're waiting a little bit for pricing, so, frankly, that could eat up some of that cash pretty quickly. That help?

Rich Wyatt: That helps. Thanks.

Operator: Thank you. And once again, ladies and gentlemen, if you'd like to ask a question, please press star, one at this time. And management, I'm showing no further questions in the queue. Please continue with any further remarks.

Michael Cook: We want to thank you all for joining us today. For those of you that experienced any technical difficulties, we genuinely apologize. We think that it actually may have been a phone outage in our building on our end. Obviously it didn't impact the phone in our conference room, but maybe other phones around the building. So we appreciate your patience, and we appreciate your business, and we look forward to talking to you next—at the end of next quarter, and reporting our results. Thank you, and have a great day.

Operator: And, ladies and gentlemen, that does conclude the SouthernSun Asset Management First Quarter 2010 conference call. Thank you for your participation, and you may now disconnect.

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