McCoy Corporation
2009 Year-End Results
March 12, 2010

Operator: Good morning, ladies and gentlemen. Welcome to the McCoy 2009 Year-End Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. At that time, participants are asked to press star one to register for a question. For assistance during the call, please press star zero on your touchtone phone. As a reminder, this conference is being recorded today, Friday, March 12, 2010.

It is now my pleasure to introduce your host, Mr. Jim Rakievich, President and Chief Executive Officer of McCoy. Please go ahead, Mr. Rakievich.

Jim Rakievich Thank you, Operator. Good morning, everyone. Representing McCoy on the call today, we have myself, Jim Rakievich, President and Chief Executive Officer, Milica Stolic, Chief Financial Officer, and Ted Redmond, Executive Vice President, Energy Products & Services. We will start the call with some of my remarks about the past year and our big picture strategy. Then, Milica will comment on the financial results. Once we are done, we will open up the call for questions.

Please be advised that the statements made on this call, other than statements of historical fact, may contain forward-looking information. I refer you to the forward-looking information statements disclaimer included in today's release of McCoy's 2009 year-end financial results. I caution you that this disclaimer applies to and expressly qualifies any forward-looking information disclosed in today's call. Any dollar amounts mentioned in this call are in Canadian dollars unless otherwise noted.

To begin, there is no question that 2009 was a tough year for McCoy. Fortunately, we ended the year with a strong balance sheet and an excellent product and service offering with international exposure.

The main macroeconomic factors that influenced our 2009 results were the weakened commodity prices for oil and natural gas in conjunction with excessive natural gas inventory at lower consumer demand for oil due to the worldwide recession.

While crude oil prices bottomed out in the spring of 2009, and have since returned to relatively healthy levels for our industry, natural gas prices continued to be volatile. The natural gas supply and demand scenario and the futures pricing of the commodity are still at a level such that only a limited amount of drilling can be supported. In particular, we have seen decreased levels of natural gas drilling activity in North America. Meanwhile, a bright spot for us has been international drilling, both onshore and offshore, which was impacted less. Our strategy of making McCoy an international supplier has made perfect sense over the past year, as it has provided some revenue stability to our business.

All this aside, when drilling levels are down, even in North America, McCoy's financial results are impacted because there is less demand for many of our products and services. As a result, our financials often lag the oil and gas exploration and production sector. This means, while drilling activity bottomed earlier in 2009, McCoy's revenues took the biggest hit towards the end of the year. Now that we have been experiencing an increase in exploration and production activity over the past few quarters, we are hopeful that at McCoy we will see renewed growth later in 2010.

The other macroeconomic factor that impacted our results in 2009 was the credit crisis. Due to tighter constraints on corporate borrowing, many of our clients, and their clients as well, had to tightly manage their capital spending in order to protect their own balance sheets. This meant buying or replacing less equipment. We are hopeful that the environment around the credit crisis is now, more or less, behind us, and we would expect capital management for our clients to gradually return to normal.

Going forward, McCoy continues to focus on growth despite having to take a step backwards over the past year. Our strategy involves organic growth in terms of boosting sales and production on our own, and it also involves acquisition growth whereby we take advantage of opportunities to make strategic acquisitions to enhance our product offering. In order to make this organic and acquisition growth strategy work, we are focused on four key tactics. These can be summed up as lean operations, global reach, market leadership, and technology innovation.

Before I turn the call over to Milica to discuss our financial results, I want to mention that earlier this week, McCoy announced a strategic unification of brands under the McCoy name with a new visual identity. This evolution of the McCoy brand plays an important role in the Company's growth strategy designed to display McCoy's global reach and integrated offering in the energy industry. Operating under a number of different company names in the past meant that customers didn't always realize that they could count on McCoy for a wide range of energy products and services. This will no longer be the case.

This brand unification will mean that customers will quickly realize the breadth and depth of McCoy's offering. They will come to understand that we can be their trusted supplier for a variety of related products, and that we can do so all over the world. Our McCoy name is about to grow stronger.

At the same time, we have simplified McCoy's corporate structure so that we now have two business segments, down from three previously. The two segments are Energy Products & Services and Mobile Solutions. We will continue to market our valuable individual product brand names, such as CLINCHER®, WINCATT™, FARR, PEERLESS and SCONA.. As part of our new visual identity and the Company brand unification, we have a new tagline of "Moving Global Energy Forward." This tagline reflects our key strategy of growth focused on the global energy industry. I am excited about the impact we expect this approach to have on our business.

I will now turn over the call to Ms. Milica Stolic, our Chief Financial Officer, for a brief overview of our 2009 financials.

Milica Stolic: Thank you, Jim, and good morning. To open our discussion of McCoy's 2009 financial results, I'd like to focus on two things. First, I'd like to discuss our income statement results, which included a significant drop in top-line revenues as well as bottom-line earnings from previous years. The second thing I'd like to discuss is more positive, in that we continued to strengthen McCoy's balance sheet in 2009 by decreasing liabilities and maintaining positive cash flow from operating activities during the year. We successfully decreased our net debt over the year by 68% to only 2.1 million at year end, which is a comparably small amount for a company of McCoy's size. This puts us in a very strong financial position going into 2010.

To summarize 2009, McCoy reported revenue for the year of $97.5 million, down 42% compared to 2008 revenue of $168.4 million. Earnings before interest, taxes, depreciation, amortization, and stock-based compensation, (or EBITDAS), for 2009 was $2.1 million compared to $17.9 million in 2008. A net loss of $13.2 million was reported for 2009. This loss includes a non-cash goodwill impairment charge, net of tax, of $11.1 million for the period. This represents a loss before goodwill impairment of $2.1 million. Cash flow from operating activities was $10.7 million from 2009, down 6% from the $11.3 million for 2008. Cash flow from operating activities amounted to $0.40 per share for 2009. Given the challenging economic climate for 2009, the cash flow numbers are positive for McCoy.

For the fourth quarter of 2009, McCoy's revenue was $20.5 million, approximately half of the revenue for the fourth quarter of 2008. Revenues began to stabilize in the first quarter of 2010, and the Corporation expects a modest recovery as 2010 progresses. EBITDAS for the fourth quarter improved to a loss of $197,000. Even though revenues for this quarter were the lowest of all 2009 quarters, we had an improved quarter-over-quarter bottom line due to some cost-cutting measures taking effect. Fourth quarter cash flow from operating activities was $3.1 million. This represents an increase of $1.8 million over the fourth quarter of 2008, due mostly to the net change in non-cash working capital components of approximately $2.8 million, offset by the decrease in net income for the quarter.

That concludes my financial summary. I will now turn the call back to Jim.

Jim Rakievich Thank you, Milica. I will now sum things up with our outlook for 2010 and beyond. McCoy has already seen signs of modest recovery in several of our business units in early 2010. The rig counts in North America began to rebound in late 2009, and this has continued into 2010. International drilling activity appears to have recovered at this point as well. This increased activity started McCoy's year off with renewed interest for drilling equipment, particularly for international markets, and this is expected to translate into higher sales in the latter portion of the year. As mentioned, McCoy's results tend to lag the energy industry activity levels. One area we are starting to receive increased orders is for custom trailer chassis that are required for fracing operations in oil and gas drilling in the Western Canadian Sedimentary Basin, the United States, as well as overseas. As many people know, large-scale fracing of horizontal wells in shale formations is one area of the energy industry that has really picked up over the past two years.

Going forward, increases in revenue in 2010 are anticipated to have a better bottom line impact because of the cost reduction activities in 2009. The recently announced licensing agreement we signed for technically-advanced handling tools as well as innovative handling tools currently under development in engineering is another positive step forward towards building out our drilling and completion equipment offering. Overall, 2010 is expected to be a 'bridge' year, as McCoy anticipates the transition from a recession type market to a more normal market. Provided that commodity prices for oil and natural gas hold up or improve, McCoy management expects to see continued strengthening into 2011. We are entering 2010 with a strong balance sheet and lower operating costs. Our management team and employees are well prepared for better times and are in a position to profitably take advantage of a stronger market to benefit our shareholders.

We will now open up the call to questions. Operator, could you please provide instructions to the participants?

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, press star one on your touchtone phone. To withdraw your question, press the pound sign. If you use a speaker phone, lift your handset before entering your request. Please stand by for your first question.

Your first question comes from Steve Hansen of Raymond James. Please go ahead.

Steve Hansen: Yes, good morning, everyone.

Milica Stolic: Good morning.

Jim Rakievich Good morning, Steve.

Steve Hansen: I like the new branding efforts; it looks quite sharp. It should also help more clearly define your priorities to investors, which is certainly positive, from my perspective. Just getting into the questions, you know, it's quite encouraging to see some of the leading indicators start to turn positive after a pretty difficult period. Can you perhaps just provide some detail around the increase in energy products backlog that you've been enjoying in the last couple of months? I know you mentioned the custom chassis on the Mobile Solutions side but, you know, are you starting to see the interest from domestic, or offshore? Where are you really seeing the benefits?

Jim Rakievich I'll let Ted answer that one, Steve. He's got a good handle on what's growing there.

Ted Redmond: As Jim said in his remarks, primarily we're seeing the recovery on the international side so far. So, international tong markets are recovering, and so we're starting to push out some of our lead times for that product. The domestic markets and the downhole tool markets are still a little bit slower in coming back. We're seeing some positive signs there, but at this point, the bulk of the recovery is on the international side. The rig count internationally is now basically, back up to where it was. Domestically, the rig count is still significantly below where it was, so that's why we're seeing the difference between the two markets.

Steve Hansen: Sure. And are those—are you seeing the demand come from a—your large existing customers, or are you starting to penetrate some new accounts overseas?

Ted Redmond: It's coming from both—our big customers have come back significantly, and some customers that haven't been active for a while. For example, we had a distributor with some inventory that finally used up all of their inventory, so they're starting to reorder. So, you know, it's still coming in, a bit of fits and starts but we're definitely starting to see across—internationally across all customers promising signs and orders stronger than last year.

Jim Rakievich And I guess, Steve, the other point is geographies, particularly, there's some new geographies that are entering in, like Australia, Vietnam, a lot of Asian area customers. So, even though some of the customers may have similar names, the geographies of where we're shipping the products or getting orders from are—some of them are new.

Ted Redmond: Yes, they're opening—some of them are opening new operations and—

Steve Hansen: Sure.

Ted Redmond: New customers, and also Russia, have actually started to come back now that their banking situation has stabilized.

Steve Hansen: I see. Okay, great. Can you maybe just speak briefly to the new Verteco licensing agreement, what does it mean in terms of a potential revenue opportunity, shorter term over longer term, and just maybe speak to how that opportunity will fit from a manufacturing perspective? I understand it will probably be integrated with the Superior, Lafayette operations?

Jim Rakievich Steve, really, we've got two fronts that we're attacking the handling tool business at this current time. One of them is with this licensing agreement for some specific regions we're going to be distributing that product to. Plus, we've got a really big push on our in-house product development side of handling tools. As you know, we've talked about getting into the handling tool business for several years now and, you know, probably before the downturn in the economy and the current credit crisis, we probably were looking more towards a larger acquisition. But, in this case, we've got two fronts going which, I think, are valuable, both the licensing agreement and our own product development that we're going to put some money behind and get that rolling forward rapidly. So, you know, we envision that over a period of time, that that market could represent, you know, probably, if I had my way, we'd have a nice $50 million handling tool business within McCoy's Energy Products & Services. That's going to take a few years, right?

Steve Hansen: Sure.

Jim Rakievich So, our objective with the two channels that we're working on now, both with the distribution agreement in the specific areas that that accounts for and with our own product development, we're going to move into that market rather quickly. And you are correct, that with the licensing agreement, that product will be manufactured at Superior, in Lafayette.

Steve Hansen: Okay, great. Just one more, if I may, before I jump back in the queue, and you alluded to this in your remarks. You know, given the sense of stability, hopefully, stability that's returning to the energy products space and the outlook, coupled with a pretty clean balance sheet, have you contemplated making a larger game-changing acquisition to accumulate some scale as opposed to the smaller tuck-in's, such as RP or licensing agreements such as Verteco?

Jim Rakievich Steve, I think that's a good point. When we look at growth opportunities, we definitely do not just focus on tuck-ins and things like that. I think if the right opportunity came along for what you described as a game changer, I think we would be remiss not to have a serious look at it. And, as you know, the ability to finance deals that are potential game changers that maybe would, you know, pick you up a completely different level, there's other ways that you can finance that than compared to just going to your bank and asking for some money.

Steve Hansen: Sure, yes, of course.

Jim Rakievich And so, I guess the answer is yes, we're not only focused on, for the acquisition side, of exploring tuck-in opportunities, we also do not turn down the opportunity to look at the game changers as you described. We look at the whole gamut of opportunities of growth.

Steve Hansen: Okay, great. That's it for me. I'll jump back in the queue. Thanks, guys.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star one at this time.

Your next question comes from John Bereznicki—

Jim Rakievich Baris—

Operator: Sorry—Paradigm Capital. Please go ahead.

John Barisnicki: Thank you. Good morning, everyone.

Ted Redmond: Good morning.

Milica Stolic: Good morning.

Jim Rakievich Good morning, John.

John Bereznicki: Just shifting gears here quickly to Inotec, I have to think the uptick in horizontal activity is starting to benefit that operation in terms of downhole tool resurfacing. Is this something that you're seeing right now?

Ted Redmond: The recovery has been a bit slower on the downhole tool side. The suppliers had a lot of inventory, companies like Weatherford and NOV. What we're starting to see is they are starting to order now, but it's not like in the past where they might order 50 tools. They're ordering like five tools, or two tools, where they're sort of running out of inventory. Once it picks up beyond historical levels and they don't have enough tools, then they'll start adding tools significantly. Also, we even detect a little bit at the end of a change in the sense that when, say, NOV orders some new downhole tools, they go to their machine shop and order it, and then the machine shop orders the raw material, and then they machine it, and then they come to Inotec to apply the wear coatings on it and the anticorrosion coating. So, there's probably a two to three-month lag from, say, you know, when NOV places the order that we start to see those orders, and then we have a pretty quick turnaround once we get those orders. So, again, we're starting to see it. We definitely had some increased activity in the early part of this year. It's just pretty slow, the volumes really haven't hit there yet. But we're—that's kind of what we're stating later in the year we expect a further recovery as long as drilling activity continues to be strong.

John Bereznicki: Okay, got you, makes sense. Next question, and, admittedly, maybe a difficult one, but if you look across your entire business line, what's your sense of the weighting between oil and natural gas in your revenue mix this coming year?

Jim Rakievich Right, John that is a tough question. You know, the answer is it depends. It depends where our customers are utilizing the equipment, John. To some extent, the demand for natural gas is regional as opposed to oil where it's, obviously, the global commodity. Natural gas is not quite a global commodity to that extent because of the restrictive ways to transport it. So, customers in Asia, there's probably a lot of activity related to natural gas drilling. You know, there's a big natural gas market in Europe and other areas. In North America, of course, we've got a natural gas problem, to some extent with the shale plays being so prolific, lots of inventory, less demand, and all those kind of things. I would say the best way, John, you know, just follow the rig counts and the rigs, what they're doing. Every report I'm reading in North America suggests that there was at least a 20% swing from natural gas drilling on conventional rigs to oil in North America. So, I guess, I'm assuming the tools and equipment that we're selling, that swing will mirror that.

Ted Redmond: And, internationally, I think a good chunk of that is drilling for oil.

Jim Rakievich So, I don't know, maybe 60, 65% of the rigs in the world are drilling for oil. If that is the case, then that's where our equipment is going.

John Bereznicki: Okay. So, you think maybe, overall, it's fairly evenly balanced, maybe a slight bias to oil here, depending on how the year shakes out?

Jim Rakievich Yes, I would say that, you know, with the price of oil and what swing took place in North America with respect to how many rigs are drilling for what commodity, I'd say Ted's probably right that, overall, it's probably a higher number percentage towards oil than natural gas at this point in time. But, you know, a year later, next year, we could be seeing a different story, right?

John Bereznicki: Okay, fair enough. That'll work. And then, and just lastly, obviously, there's been a little bit of restructuring on your facility. Can you just quickly walk us through the high points of what's happened subsequent to year end?

Milica Stolic: Certainly, I can do that. So, McCoy went offside on its covenants. What we were able to do is restructure our debt in order to cure those covenants on a go forward basis. So, we did replace the term debt and the sub-debt with two new pieces of term debt. We extended the life of the repayment on those. And I guess the only other thing we did was decrease our line from $15 million to $10 million at a lower interest rate.

John Bereznicki: Got you. And, I think, reading through your year end, it sounds like you have a fairly ample capacity left on that facility as you sit today, is that right?

Milica Stolic: Yes, that's correct, we're not in the line at all.

John Barisnicki: Okay, that's great. That wraps it up for me, thanks.

Jim Rakievich Thanks, John.

Ted Redmond: Thanks, John.

Operator: Thank you. We have a follow-up question from Steve Hansen. Please go ahead.

Steve Hansen: Yes, Jim or Ted, can you just provide a quick update on your initiative to spark replacement parts into the energy products space? I know PDT is a key component to that, but I think you'd also been looking at adding additional components for Farr and Superior.

Ted Redmond: Yes, that initiative is moving along pretty good. We've done a couple of things. One is we're moving some of our tong dies—Clincher tong dies in our tong plant in Louisiana. We're now right in the middle of moving all of that die production into a Precision Die so that facility is leaner and better set up for making all different types of dies, and that will also give them the capability to do more wrap-around style dies. So, that transition is underway, and we think that's going to both reduce our costs and help to improve our customer service and lead times on both of our existing Farr and Clincher type dies as well as our dies that we supply for third parties. So, the majority of the dies that PDT does are for non-McCoy equipment.

On the rig parts side, we continue to broaden out that product line, so we've product-designed the spare parts for one of our competitors' tongs, the full line of parts. We're in the process of now doing that idea for a second competitor tong. We also are now offering the replacement parts for some pipe handlers and iron roughnecks made by a competitor. So, our objective is just to keep broadening out that catalog. You know, it's sort of this slow, steady thing just like it was for the dies. We're slowing adding additional dies over time. In 2009, we actually added a lot of different dies, and that actually helped to offset some of the decline from the existing dies, but we replaced that lost sales from new dies. So, it's a slow, steady build in that business, and we're, you know, continuing to make good progress there. We're also in the process of, for competitors' jaws, for all of their tongs. One of the highest-volume spare part or replacement parts for tongs is the different jaws for the different sizes of the pipes—

Steve Hansen: Sure.

Ted Redmond: And we're putting in some automated equipment to reduce our costs, gear up our manufacturing of those jaws.

Steve Hansen: Okay, great. That's very useful. And just lastly, when you're looking at, thinking about the Penticton facility now that the consolidation has taken place for trailers, or Mobile Solutions, I guess, you're calling it now, where is that plant in terms of utilization? And this one might be a long shot, but I think we're starting to even see a small uptick in recovery in the forestry space. It's hard to believe after six years in a downturn.

Jim Rakievich Steve, it is hard to believe but, yes, you're right, we're seeing lots of increased activity in selling logging trailers. There are a couple of reasons for that. One is, for some reason, some bizarre reason, there's a bigger demand, but there's also regulatory reasons with respect to weight lot changes, and we always like it when they allow people to carry more or less weight. It requires new trailer designs to meet those regulations to take advantage of the changes, right, so—

Steve Hansen: Right.

Jim Rakievich But our plant in Penticton is running really, really well. That consolidation we did last year was outstanding, and we're running probably now at about 35 to 40% capacity—

Steve Hansen: Okay, you have lots of room—

Jim Rakievich So, we've got lots of room, we've got lots of head space in that plant. When we did that, I think I threw out a number like we probably have at least $50 million of capacity in that plant at Penticton of revenue. So, as you can see from our year-end results, we've got a little ways to go, but we are definitely busier right now that we sure as hell were any time in 2009.

Steve Hansen: And did any of the competitors in the forestry trailer space, I think of Doepker and a couple of the others, I know they had some financial issues, but are they still around, or did they survive the downturn, or how are they fairing?

Jim Rakievich Doepker, I think, survived. They're still around, and, yet, I'm sure they had some financial struggles. Anybody in the trailer—the whole trailer industry, not only in Canada, but in North America has taken a real kick, and I'm talking not just the commodity trailers, but I'm talking a lot of the custom stuff.

Steve Hansen: So, we're—

Jim Rakievich If you look at major competitors in the United States in custom heavy-duty trailers, such as Trail King, who's owned by Carlisle Company, they consolidated two trailer plants as well last year. Some people got right out of the business. There's a lot of pain in that industry. So, I think, coming out of this, there are some opportunities. In Eastern Canada, a couple of private companies have left the market into insolvency, smaller players. I think, you know, the players that have been around a long time, even the private companies that have been through the ups and downs, typically, in this industry, they, like any other, they just—they survive, and I think the Aspens and the Doepkers will come out with some—with their skin on, more or less. But a bunch of the people that come in and enter that market end up—they'll be out of the market now for a few years, but that's always good for us. In my time in this industry, post-recessionary periods are always bountiful in the trailer industry because of those factors.

Steve Hansen: Sure. Yes, well, our forestry guys here have got a pretty positive outlook going forward. It's going to take time, but it—you know, that could be a part of your business that most people underappreciate, I suppose, given (unintelligible)?

Jim Rakievich Yes, and our biggest advantage, quite frankly, is in one specific area, in that—besides logging trailers, but our biggest advantage is in the custom chassis—

Steve Hansen: Sure.

Jim Rakievich For the fracs, coiled tubing units, mud units, and all that kind of stuff because those custom chassis are really something we are really, really good at, and we can turn them over. And now, we've got designs, and we've got proper approvals for our equipment into Europe, so we have European standard chassis for frac and coiled tubing units that can actually run on European highways. We just shipped an order in Q4 into the U.K. We've now been approved for Australia, and we've got an order into Australia. So, the good news is we're actually doing some global things with the custom chassis products as well, all related to shale and stimulation activities and coil activities worldwide.

Steve Hansen: That's great, it's promising. That's it for me. Thanks very much.

Jim Rakievich You're welcome.

Operator: Ladies and gentlemen, if there are any additional questions, please press star one at this time.

There are no further questions at this time.

Jim Rakievich Thank you, Operator. I'd like to sum everything up by emphasizing our growth strategy. We are in a good position to take advantage of both organic growth and opportunity-based acquisition growth. We are especially focused on building out a complete line of drilling and workover equipment so that we can be a one-stop shop in this regard. We are committed to innovation and establishing McCoy in a global market leadership position. We'd like to thank our shareholders for their support, and we look forward to getting back on the growth track as we move global energy forward in 2010.

And now, I'll turn the call back to the Operator.

Operator: Thank you. Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line, and have a great day.