

McCoy Corporation
Second Quarter 2010 Results
August 4, 2010

Operator: Good morning, ladies and gentlemen. Welcome to McCoy's Second Quarter 2010 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, Wednesday, August 4, 2010.

It is now my pleasure to introduce DeAnn McNally, manager of corporate affairs for McCoy. Please go ahead, Ms. McNally.

DeAnn McNally: Good morning and welcome to McCoy's 2010 second quarter conference call. Representing McCoy today are Jim Rakievich, President and Chief Executive Officer; and Milica Stolic, Chief Financial Officer. We will begin with Jim's remarks about the quarter and our overall strategy. Following that, Milica will comment on the financial results and we will end with a question and answer session. Please be advised that 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 2010 Second Quarter Financial and Operating Results. This disclaimer also applies to, and expressly qualifies, any forward-looking information disclosed in today's call. Any dollar amounts mentioned on this call are in Canadian dollars unless otherwise noted.

I will now pass the call to Jim.

Jim Rakievich Thanks, DeAnn.

I am pleased to report on McCoy's turnaround and positive results for the first half of 2010, and in particular the second quarter. First, we are putting McCoy in a strong position, both financially and strategically for long-term growth. Second, we are seeing evidence of increased revenues from our global growth strategy. And third, our mobile solutions segment has shown a significant turnaround thanks to our leadership position in custom chassis being used for multi-stage framing.

As of June 30, 2010, McCoy's net debt was only \$1.1 million dollars. This is approximately the same amount as our net earnings for the quarter, and significantly less than our cash flow from operations and EBITDAS reported for the quarter. We have the potential to start building a positive net working capital position going forward, which firmly puts us in the driver's seat when it comes to proactive growth plans and investments. In the first half of 2010, we noticed hot spots for oil and gas activity that require our products in South America, specifically relating to the Brazilian offshore drilling sector. We see significant amounts of capital being deployed in this area of the world representing an excellent growth opportunity for McCoy for a long period of time. We will continue to execute our strategies related to our drilling and completions equipment line and our global sales strategy.

Getting back to my third point, during the first half of the year we showed a considerable turnaround in revenue and profitability for our mobile solutions segment. Longer horizontal wells and an increasing number of frac stages have increased demand for custom chassis, where we are in a leadership position. Typically we see orders for 25 custom chassis for each build up of 50,000 horsepower. The custom chassis will continue to be a focus for growth in the mobile solutions segment, heading into the second half of the year.

The three highlights I have described – our strong position, our global growth, and our mobile solutions turnaround – have contributed to McCoy's success and reinforces 2010 as a bridge year.

I am now going to turn over the call to Milica Stolic for a brief overview of our second quarter 2010 financials.

Milica Stolic: Thanks, Jim, and good morning. The recovery that began to take hold for McCoy in the first quarter of 2010 has continued in the second quarter. Revenue of \$30.4 million was 30 percent higher than the same quarter of 2009. Net earnings of \$1.1 million for the second quarter also show an upward trend when compared to a loss of \$1.5 million in the same quarter last year. Although our results are much improved over a year ago, when compared to results from two or three years ago, we can see that we have yet to return to the activity levels when rig counts were much higher. However, we do continue to see improvement.

Overall corporate revenue increased by 23 percent compared to the first quarter of this year. Revenue for the Energy Products & Services segment increased by 29 percent to \$21.1 million in the second quarter of 2010. International drilling activity was a bright light in 2009 and early 2010 as international sales remained strong in certain countries. This is evidenced by McCoy's maintenance of sales outside of North America in the second quarter of 2010 of \$8.1 million, which is 27% of total revenues. As the number of rigs working internationally and in North America is increasing, McCoy expects

demand for capital equipment will improve which will be positive for both the Energy Products & Services and the Mobile Solutions segments. Energy Products & Services is experiencing a backlog build up and we're anticipating the revenue pipeline for Drilling and Completions equipment will continue to recover. The Mobile Solutions segment experienced an increase in revenue of \$3.7 million over last year, to \$13.5 million for the second quarter of 2010. The increase was primarily due to the continued recovery in oil and gas activity in Western Canada, where the majority of revenue for the Mobile Solutions segment is derived. McCoy Trailers has been successful in generating revenue above forecast for the quarter and has improved gross margins.

McCoy's overall consolidated gross profit percentage improved to 40 percent for the second quarter of 2010 compared to 39 percent in the same period of 2009. This improvement is a result of McCoy's continued monitoring and reduction of manufacturing overhead costs to ensure protection of the gross profit. In terms of McCoy's balance sheet, we ended the second quarter with \$5.8 million of cash on hand and net debt of only \$1.1 million. Our net debt levels are the lowest they have been since 2003.

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

Jim Rakievich: I'll now sum things up with a few quick words about our outlook. We're proud of the turnaround we have shown so far, and we are grateful to our employees, partners and customers who have participated in this recovery. We remain optimistic in the near term. This optimism is justified by increasing backlogs in most parts of our business. Our primary strategic focus continues to be increasing our global sales and our efforts to develop or acquire a full drilling and completions equipment line. In the meantime, we are looking to capitalize on opportunities as they arise.

With that, we are now ready to take some questions. Operator, could you please provide instructions to the participants?

Operator: Thank you. Ladies and gentlemen, if you'd 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.

Jim Rakievich: Good morning.

Milica Stolic: Good morning.

Steve Hansen: Great quarter. Jim, based upon the strong influence you've seen for the multi-stage fracing, your higher backlog and outlook seem to suggest there's still some growth to be had in the Mobile Solutions business in the second half of the year. Do you have additional visibility into 2011 as well?

Jim Rakievich: In the second half, one of the reasons we're quite optimistic about it is because I think we'll experience two full quarters of strength. If you remember, in Q1, it was a good quarter but it was just starting to build up. Q2 is a better gauge for what the activity level is on the trailer side, on the chassis in particular. Our visibility for the remainder of the year is quite strong and if I rubbed my crystal ball today, I would suggest being a little careful because you never know in this business on the capital goods side when you got such amount of buildup of horsepower like this. But I would say going into the first half of 2011 I feel pretty optimistic about that as well.

Steve Hansen: Okay, great. And as a follow-up, you've obviously consolidated the plants; you're getting increased utilization and efficiencies out of the plants. Is this a business that you think is going to start turning a profit on an EBIT basis in the not too distant future?

Jim Rakievich: Actually, it's turning a profit now.

Steve Hansen: Okay, great. Just one more, if I could. You mentioned the hot spots in respect to Brazil and North America—I'm sorry, in offshore Brazil. I presume a lot of that activity is coming from Petrobras or contracted through Petrobras. Can you just give us a sense for the strength of that region as to how it relates to the growth in the business of late on the Energy Products side?

Jim Rakievich: Sure. As a matter of fact, I was down there last week and I spent time with our current customers that we have in South America and are active in that particular market, and our stance is that over the next 10 to 15 years, it's going to be very strong. The offshore market with Petrobras looks like there will be a lot of opportunities. And I think this is one of the bigger opportunities we see with the Verteco tools that we did the licensing agreements with early in the year. I think we're really going to start to get some traction with that product down there starting in early 2011. I'm pretty optimistic about that and Petrobras is letting some contracts out now for the China customers that we sell directly to, even in the power tong business. So, we're really starting to feel more confidence from our customers down there, and I think it's a heck of a market.

Steve Hansen: Okay, great. And just one last one, if I may. It's an obvious question, but with only \$1.1 million in net debt now on the balance sheet, it's looking pretty pristine here, the market seems to be stabilized, in large part, and perhaps even showing some good growth now. How would you characterize your pipeline or your search for acquisitions in the tools handling market?

Jim Rakievich: I think with all of the things that have come together, first of all a pretty good turnaround, and rather than going out and looking at deals last year, we spent a lot of time doing the consolidations, as you described, cleaning up, and lowering operating costs. We've done all those activities, and you're right, our balance sheet is quite pristine. So, I think the pipeline is looking pretty decent. I think we need to look at strategic acquisitions right now to see if there are any opportunities and look at the opportunities that are in front of us and maybe capitalize on some of those.

Steve Hansen: Okay, great. I'll jump back in queue for now. Thanks, guys.

Jim Rakievich: Sure.

Operator: Thank you. Your next question comes from John Bereznicki of Paradigm Capital. Please go ahead.

John Bereznicki: Hey, good morning, everyone.

Jim Rakievich: Morning, John.

Milica Stolic: Good morning.

John Bereznicki: I just want to pick up on the previous discussion. In your MD&A, I think you mention beefing up the engineering contingent a little bit. Can you give us a little more color on that, and does that maybe point to a subtle shift to more growth on the organic side of the business, or am I reading too much into that?

Jim Rakievich: No, you're not. I actually don't think it's adding a little engineering horsepower, I think we need to add a lot. Part of our planning for going forward, John, is to significantly boost our engineering horsepower as it relates to developing new products for drilling and completions. There are some tools that we're not going to be able to buy through acquisition that we need to have in our portfolio. It is our strategy, as you well know, to have a complete drilling equipment line. And in order to fulfill that, rather than just rely solely on acquisition, I think our organic growth has to be through new product development, and our management team certainly agrees with that. In order to do that, you need to have the engineering horsepower with the right expertise. Dan Bangert, our VP of Technology, Engineering & Quality, is currently recruiting

for talent, and with the objective of speeding up our new product designs to market.

John Bereznicki: Great. Appreciate the color. Second question, you alluded to the Verteco licensing agreement, and I appreciate you answered that in Q1, but can you give us a sense of how that's working out so far? It sounds like it's going to have some potential in Brazil, but give a sense of where else you see some opportunity with that agreement.

Jim Rakievich: With that agreement we see opportunity pretty much anywhere where there's heavy stream lifting, offshore in particular. Land drilling also offers a lot of opportunities but the immediate stuff that we see is for the offshore side. We've got customers in Asia, offshore Vietnam, in those areas. We certainly think that there's some great opportunity for sales in those regions. Where we currently operate with that product, it hasn't gained the traction as quickly as we expected. A few weeks ago, there was a complete training session for all our salespeople. When you're selling technical products, everybody needs to know, particularly those that are sitting across from a customer, the real specific technical pieces of that tool, our people that travel and visit our customers, they know the equipment, they know drilling equipment. They know power tongs and torque turn computers and things extremely well. But we wanted to make sure they have all of the latest knowledge on these Verteco tools. We're putting together our sales material and Dan Bangert is working with engineers at Verteco to get the drawings. Everybody's drawings are not exactly the same but we need them what we call "manufacturing ready," so that process is happening right now. We should start putting together products in our own plant very soon.

John Bereznicki: Okay. And one last quick one and I'll jump back in the queue. Obviously, it's no secret there's some horsepower being added in North America in the pressure pumping market. You've clearly developed an expertise in that segment. Can you give us a sense, internationally, how that plays out, markets like Australia, and how that might help you, certainly, into 2011? What's your best sense right now?

Jim Rakievich: This is heavy and dimensionally challenged equipment and it is still being designed and developed in North America. We have sold chassis and shipped them to the U.K. We've also done Australia. And I think that the customers that are selling this product through the end user are customers that are pretty committed to our chassis products. We feel pretty confident in obtaining our piece of the pie when it comes to international sales if any of this kind of equipment's being manufactured and shipped overseas. I think we'll get our strong percentage of the chassis related to that stuff.

John Bereznicki: Okay. And when you speak to maybe having some visibility into 2011 in that business segment, is it primarily in the North American

side of the business, or is there a little bit of international potential creeping into that as well?

Jim Rakievich: There's a bit of international but, to be honest with you, John, the vast majority is North American.

John Bereznicki: Okay. Listen, I've taken up enough time. Thanks.

Jim Rakievich: You're welcome.

Operator: Thank you. Your next question is a follow-up from Steve Hansen. Please go ahead.

Steve Hansen: Yes, just a quick one, or two, actually. You mentioned in the MD&A that the Gulf spill had just a relatively minor impact on your business but does that also perhaps create opportunities? I'm just trying to get the sense whether or not there's been any other suppliers that were perhaps Gulf-centric on the equipment side that could be suffering hard times that might be opportunities for acquisition?

Jim Rakievich: Steve, there's no question, there are some companies down in the Gulf Coast where this area is a hundred percent of their market and they're going to suffer. I haven't really seen any companies that would be the kind of businesses that we would go after that are going to be in a position where they could be acquired. I'm not aware or haven't seen any companies that would be directly linked to our strategy that would be acquisition targets.

Steve Hansen: Okay, that helps, was just curious. Just one other and I think I asked this in the past but I can't recall. I know you've spoken in the past about the merits of PDT, the attractive margins that it carries just given its sort of lean philosophies or principles on the design—on the manufacturing process. But you've also spoken to trying to develop a broader replacement parts business in the past, and I'm just wondering what stage you're at there and whether or not there's been good opportunities to grow that business as the market starts to recover here?

Jim Rakievich: Steve, there are good opportunities. We've pulled the reins just a bit on that horse last year because we were really monitoring cash flow and cutting our expenses. One of the things this business requires now is a bit of capital infusion for capital equipment so that they can broaden their manufacturing capabilities. The stage we're at now is we have space. We've created space by moving things around in Superior—in Lafayette, and so now we have the space available to grow that business. It's a matter of now putting capital equipment in there so we can kick-start that business again. But, really, it was our decision to kind of slow it down a bit because in late 2009, we were still

kind of waiting for the market to turn around before we started spending a bunch of money on capital equipment.

Steve Hansen: Sure. All right, well, thanks for the update. It's encouraging to see the progress.

Jim Rakievich: Great. Thanks, Steve.

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

There are no further questions at this time. I'll turn the conference back to Ms. McNally.

Jim Rakievich: I would like to summarize the call by reemphasizing our growth strategy. We will build on our strong market position, both financially and strategically. We will continue to grow McCoy's global presence, and we will expand McCoy's drilling and completions equipment line. We'd like to thank our shareholders for their support, and we look forward to continuing our positive growth trend.

This concludes my remarks.

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