

# FINAL TRANSCRIPT

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## **TRS - Q1 2008 TriMas Corporation Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Grant Beard**

*TriMas Corporation - President, CEO*

**Bob Zalupski**

*TriMas Corporation - VP of Finance, Treasurer*

**Dave Mosteller**

*TriMas Corporation - Director of Finance for Operations*

## CONFERENCE CALL PARTICIPANTS

**Al Kabili**

*Goldman Sachs - Analyst*

**Walt Liptak**

*Barrington - Analyst*

**Tom Klamka**

*Credit Suisse - Analyst*

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**Curt Woodworth**

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**Todd Miranowski**

*Silver Point - Analyst*

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to TriMas First Quarter 2008 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a Question and Answer session and instructions will follow at that time. (OPERATOR INSTRUCTIONS) I would now like to introduce your host for this conference call, Ms. Sherry Lauderback, Vice President of Investor Relations. You may begin, ma'am.

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**Sherry Lauderback** - *TriMas Corporation - VP of Investor Relations*

Thank you, and welcome to the TriMas Corporation's first quarter 2008 earnings call. Our President and CEO, Grant Beard, and our Vice President of Finance and Treasurer, Bob Zalupski, will review TriMas' first quarter results in addition to providing the Company's outlook into the remainder of 2008. After our prepared remarks, we will answer questions from the audience. Also present with us today from TriMas is Dave Mosteller, Director of Finance for Operations.

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To facilitate this review of our results, we have provided a press release and PowerPoint presentation on our Company Web site, [trimascorp.com](http://trimascorp.com) under the Investor Section. In addition, a replay of this call will be available later today by calling 866-837-8032 with a reservation number of 1235805.

Before we get started, I'd like to remind everyone that our comments today, which are intended to supplement your understanding of TriMas, may contain forward-looking statements that are inherently subject to uncertainties. We caution everyone to be guided in their analysis of TriMas by referring to our Form 10-K and Form 10-Q for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statements. Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our Web site, where considerably more information may be found.

At this point, I'd like to turn the call over to Grant Beard, TriMas President and CEO.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Thank you, Sherry. Welcome, everyone, to the TriMas Corporation first quarter 2008 earnings call. This morning, Bob, Sherry, Dave, and I will review our first quarter 2008 results and our corporate and segment highlights for the quarter. We will also provide a financial overview of our Company as of March 31, 2008, and then provide the Company's outlook into the remainder of the year. After our formal comments are complete, we will open up the forum for Q&A.

As TriMas Corporation entered 2008, we stated that our strategic priorities were new product development and market expansion and that these initiatives will provide our Company with several catalysts for growth. Our strategies for expanding our Company internationally are set, as well as our priorities of growing further into end markets of medical, pharmaceutical, energy, aerospace, and specialty packaging. We believe these initiatives position TriMas to deliver solid performance against the backdrop of a weakened United States economy. TriMas continues to see double-digit growth, both outside of the U.S. and within these strategic end markets.

As we anticipated, our Recreational Accessories and RV Trailer Product Groups have been met with the challenges of a weak consumer market here in the U.S. Our view is that U.S. discretionary leisure spending is under extreme pressure and we do not anticipate this condition to change throughout the year. While this condition was anticipated in 2008, it will serve to dilute the positive accomplishments of our many strategic initiatives across our remaining portfolio. That said, we believe these two groups, collectively known as Cequent, will continue to outperform their served markets in the U.S. as the preeminent market leader via new product introductions, market share gains, and aggressive cost management. Further, we believe our efforts in our other businesses, combined with aggressive cost reductions, will position us for double-digit earnings growth versus 2007.

As we discussed on our last call, 2008 will be a year of two tales for TriMas. We expect revenue and earnings growth across our Packaging Systems, Energy Products, and Industrial Specialties Groups. These groups in the first quarter of '08 accounted for approximately 56% of our revenue, and 78% of our segment EBITDA.

In contrast, within our Recreational Accessories and RV Trailer Products Groups, Cequent, we expect a continuance of weak end-served markets in the U.S. Cequent does anticipate continued growth in Australia and Southeast Asia, which account for approximately 15% of the combined groups' revenues. So for Cequent, 2008 will be defined by aggressive cost management and market leadership positioning via new product introductions and market share attainment.

In contrast, our order backlogs in our new product initiatives across the remainder of our portfolio are gaining momentum. This will be a year of balance. Now, let's have a look at our first quarter of 2008.

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Revenues for the corporation were slightly down 1.7%, as compared to the first quarter of '07. Our Packaging, Energy, and Industrial Specialty Groups saw their combined revenues increase by 7.5%, while our Recreational Accessories and RV and Trailer Product Groups, Cequent, saw their combined revenues decline by 11.4%, as compared to the first quarter of a year ago.

The Company's adjusted EBITDA for the quarter was \$37.6 million, or a decrease of 8.1% from those levels of the first quarter of last year.

Our income from continuing operations was flat year over year at \$7.8 million.

The Company's net income for the quarter was up 11.6% to \$7.9 million, as we reduced our discontinued operations expenses.

Our first quarter earnings guidance was \$0.21 to \$0.24 per share, and TriMas produced a diluted EPS of \$0.23 per share, as compared to the \$0.37 per share of a year ago.

We are also reaffirming our full-year 2008 earnings guidance. TriMas had \$127 million of cash on hand and available liquidity at the end of the quarter with a debt-to-EBIDA ratio of 4.3 times.

During the quarter, our businesses performed as expected. We incurred large negative conversions as we moderated activities across Cequent that these were planned. We began to see the formal indications of material cost increases coming in to the second quarter and we have proactively established pricing across our portfolio to pass those costs on. TriMas expects to maintain its material margins across the year. Our Company was awarded several new programs across our entire portfolio with over \$40 million in new business secured. We also saw our international sales increase within the quarter. Both are indicators that our commercial initiatives are taking hold.

Now, let's have a quick look at each of our segments. First, Packaging Systems. This group saw revenues expand a modest 1.5% within the quarter. This, however, does not reflect the full story. The group saw its commercial construction laminate product lines decline 10% within the quarter due to weakness in the commercial building market. This group's core industrial barrel closure product line was flat with last year in both North America and Europe. We have seen relatively flat daily order intake for this product line over the last nine months.

Our strategic growth focus on specialty dispensing and closure products did grow at 8.8%. This portion of the group's revenue is approximately 22.9% but is where the group is evolving to and is the focus of its energies. Packaging secured \$6.3 million of new business in the first quarter of '08. We expect these three distinct product categories to perform in a manner consistent with the first quarter of '08 for the remainder of the year. We were pleased that EBITDA grew at 4.9%, highlighting the quality of the group's growth initiatives.

Our next group, Energy Products, saw very strong growth in the quarter, with revenues increasing 17.4% and EBITDA growing at 21.5%. We are pleased with the group's positive earnings conversion, highlighting our solid product mix and operational leverage. Our refining-based MRO business continues to see strong order intake, with several large refineries scheduled to perform substantial refurbishment and capacity expansion products during 2008.

Our service model is also being internationalized with our newest satellite in China starting to produce domestic production for Dow Chemical. In addition, we expect expansion opportunities in Southeast Asia, Europe, and South America to be implemented over the next 12 months or so.

The group also saw backlogs for its well-site product line grow to a record \$17 million, as both oil and natural gas prices have increased. Capital deployment to the field is regaining strength, as is our commercialization of new product -- new gas products and compressor lines. The market acceptance to our expanded well-site products has been excellent. We believe that over the next several years our Arrow Engine Company can double its average well-site content from 25,000 to 55,000 -- excuse me, to 50,000. The group anticipates the continuation of strong order intake as we move across 2008.

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Within our Industrial Specialties Group of businesses, we saw revenue increase 5.7% and EBITDA increase 4%, as compared to the first quarter of '07. Demand for our industrial fittings and cutting tools softened in the quarter, which moderated the group's performance due to the exposure to North American automotive activity and the American axle strike. That said, March order intake increased within our Monogram Aerospace Company finishing the quarter with a record backlog of \$35 million. Monogram is also finishing up a three-year contract expansion with a major aircraft manufacturer. Our new titanium and composite fastening products should position this business to continue to grow faster than its served market for some time.

In addition, our Norris Cylinder business continues to see great acceptance for its products outside of North America. Sales of our international ISO cylinder product line grew by 12.7% to \$5.1 million in the first quarter of '08. This Company was also awarded a new two-year supply contract with Air Liquide, as we further position ourselves with large international gas companies.

In addition, our initiatives to expand into medical components are progressing ahead of plan. While still a small component of the overall group, this product category grew to \$3.4 million in the first quarter of '08. Our acquisition of DEW Technologies has been a catalyst for growth and has met all of our expectations. The group expects soft demand for its industrial cutting tools and for our auto-related fitting products in the U.S. That said, both of those companies are actively expanding their respective market exposures. Our fittings company just received supplier accreditation at Boeing and our cutting tool business secured our largest to date medical component order with Medtronic. We expect continued strength within our aerospace, cylinder, and medical component product lines across the remainder of the year.

Our last two groups, Recreational Accessories and RV Trailer Products, I will speak to collectively as Cequent. In North America, our revenue was down 15.8%, as compared to the first quarter of '07. This comparison does include, however, a \$5 million one-time order line fill we had with [TFC] in advanced auto last year. This makes the comparable revenue down 11%. Outside North America, mainly in Australia and Thailand, our revenue increased by 29.7% to \$17.5 million. The performance of Cequent group of businesses was consistent with our expectations.

We believe our end-served markets for Trailer and Cargo Management Products and Accessories will be weak for the remainder of 2008. This weakness is being driven by the housing market, credit availability, gasoline prices, and their collective impact on consumer spending. That said, our group outperformed a challenged market in 2007 and we believe that in 2008 our new product initiatives, share gains, pricing, and cost management will allow us, again, to overachieve against our peers in these markets. Our market leadership positions us well in this environment to leverage our brands, bundle and cross-sell our portfolio of products, and to leverage our cost basis.

Cequent's approach will be consistent as we move across the remainder of 2008. The aggressive market leaders, the aggressive cost managers, and drive free cash flow from these entities. Our performance in the first quarter of '08 in these businesses was as expected. We began to sell out of inventory, reduce work levels operationally, and initiated approximately \$4 million of annual cost saving initiatives. These will reduce both our fixed and variable cost levels and allow for increased conversion as we move across 2008.

Demand continues to be strong outside the U.S. Order intake coming into the second quarter has been slightly stronger than expected in the U.S., but we will manage Cequent in all of TriMas very closely as these end markets continue to define themselves.

Bob, would you now profile the financial status of our corporation.

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**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Thank you, Grant. If you are following along in the slide presentation, please turn to page 13 for a review of our Statement of Operations.

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As Grant profiled for you a bit earlier, net sales for the quarter ended March 31, '08 were \$279.6 million, a decline of \$4.8 million, or about 1.7% compared to the year-ago period. Net sales in the current year included an approximate \$5.6 million favorable impact as a result of a weaker U.S. dollar.

Within our Energy Products, Industrial Specialties, and Packaging Systems Groups, net sales increased \$10.9 million, which was more than offset by the sales decline within RV and Trailer Products and Recreational Accessories of \$15.7 million, as demand in the U.S. end markets of these businesses continue to be impacted by weak consumer confidence and reduced consumer discretionary spending.

Gross profit, as a percent of sales, decreased 120 basis points from 27.4% in the first quarter of '07 to 26.2% in the current year's quarter, due principally to the sales volume decline and lower absorption of fixed costs as we reduce production to manage inventory levels in our RVT and Recreational Accessories Groups and also a less favorable product mix.

SG&A expenses in the first quarter of '08 were approximately flat compared with the same period a year ago, as increased spending to fund certain of our growth initiatives was approximately offset by cost reductions in Recreational Accessories and RV and Trailer Products in response to weaker demand.

Compared to the year-ago period, interest expense decreased approximately \$4.2 million. Of that amount, about \$2.5 million was due to the retirement of \$100 million of our senior subordinated notes in June 2007 using IPO proceeds. The remaining change is due to a lower weighted average interest rate on our variable rate borrowings of approximately 6.1% in the current quarter compared to 8.2% a year ago.

The effective tax rate for the first quarter of '08 approximated 36%, compared to 37% in the year-ago period. And income from continuing operations of \$7.8 million was approximately flat compared to the prior year. Net income in the first quarter of 2008 was \$7.9 million, compared to \$7.1 million a year ago, which included the operating loss of a former industrial fastening business disposed of in February of 2007.

We earned \$0.23 per share from continuing operations in first quarter '08, compared to \$0.37 per share in the first quarter of '07. Diluted weighted average common shares outstanding during the quarter were 33.6 million, compared to 20.8 million a year ago, as a result of our IPO completed in May 2007.

Moving to Slide 15, TriMas ended the quarter with total indebtedness, including amounts outstanding under our securitization facility of approximately \$673 million, compared to \$768 million at March 31, '07. The net decrease of \$95 million is the result of the retirement of \$100 million senior subordinated notes and scheduled amortization of our bank term loan of \$2.6 million, offset primarily by funding of increased working capital needs.

The natural cycle of our businesses typically result in a working capital build in the first half of the year, which is then reduced in the back half. Still, the current level of investment in operating working capital is higher than we would like. We are committed to reducing this investment, particularly in inventory, over the remainder of the year which will provide an incremental source of cash flow. While we have not provided guidance relative to expectations of our free cash flow, we do consider it an important attribute of our companies and anticipate significant improvement in free cash flow compared to the prior year.

TriMas finished the quarter with \$5.5 million in cash on hand and approximately \$122 million of available liquidity on our revolving credit and receivables securitization facilities. Our reported leverage in interest coverage ratios were 4.3 times and 2.4 times at March 31, 2008, compared to our covenant requirement of 5.25 times and 1.9 times, respectively.

Now, I'll turn it back over to Grant to discuss our priorities and outlook for the remainder of the year and to wrap up our formal remarks.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Thank you, Bob. As TriMas and our management team look out over 2008, we see two different tales for our Company. We expect our strategies and operational initiatives to support our guidance and deliver solid results. We see opportunities for earnings growth across Packaging, Energy, and our Industrial Product Groups. Aerospace, energy, medical, and specialty packaging, in particular, look very strong. Within Cequent, solid market performance is expected outside the U.S. Within the U.S., Cequent's largest market, we expect market volume to be down, at least, 10%. Our combination of cost and market initiatives positions us to work through this bottom of the cycle and to be much stronger when the end market demand returns.

While we are vigorously attacking costs and driving with renewed passion the concepts of lean, we remain committed to our strategic growth initiatives that will support long-term shareholder value creation. Our Company has implemented approximately \$4 million of cost initiatives with over \$5 million in additional savings under review. We are pricing across our portfolio and expect that we can maintain material margins over the course of 2008. But, most importantly, in the first quarter alone, we secured over \$40 million of future revenue opportunities.

The Company reaffirms its guidance for 2008 of an EPS range from continuing operations of \$0.85 to \$0.95 per share on net income of \$28.5 to \$31.9 million. We see great opportunities to build value and produce earnings as our strategic initiatives take hold. I and my management team are committed to drive earnings performance at TriMas and build a foundation for shareholder wealth creation. We thank you for your time this morning and your support and I would ask our Moderator, Kevin, to open the call for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) Our first question comes from Al Kabili with Goldman Sachs.

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**Al Kabili** - *Goldman Sachs - Analyst*

Good morning, guys.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Hi, Al.

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**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Good morning, Al.

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**Al Kabili** - *Goldman Sachs - Analyst*

I guess a first question is on the outlook. Are you assuming -- I know you expect the Cequent businesses to remain weak throughout the year, but are you expecting in your outlook an improvement versus the trends we saw in the first quarter? It seems like you'd have to to kind of get to your guidance. And if so, where are the major sources of improvement going to be driven by as we go forward?

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**Grant Beard** - TriMas Corporation - President, CEO

Sure. It's a great question. I think in North America, we are not assuming that the market provides us any incremental strength. I just think that leisure spend for the consumer is going to have a lot of pressure on it. That said, we think the combination of our customer initiatives, our product introductions for content, our pricing, and our cost initiatives clearly provide us the ability to sort of work through the bottom here and provide us a foundation to support our guidance. On the other side of the aisle, we're seeing really nice strengthening in order backlogs in areas that, frankly, are the most profitable inside of TriMas. So we think the combination of those two allow us, as a Company, to deliver solid performance as we look across '08.

**Al Kabili** - Goldman Sachs - Analyst

Okay. And any way you could quantify in terms of the cost reductions, the incremental opportunities versus the first quarter and when they might hit and as well as pricing? If you could comment on that, not only for Cequent, but all of the segments.

**Grant Beard** - TriMas Corporation - President, CEO

Sure. We can sort of do it at a macro level. You don't have to -- as we came across the first quarter, we really saw our material margins remain flat. And, so said differently, we did not really see a great deal of pressure or material increase across our portfolio. Certainly, read about it, hear a lot about it. It's a very different story as we look forward into the year and are expecting coming into the back part of this quarter and certainly into the third quarter that we will have exposure to steel increasing. And it's increasing in varying degrees across different types of alloys and different types of fabricated steel. And we are pricing in advance of that. Don't expect that necessarily to provide us a benefit, but do expect it to allow us to maintain our material margins really across the board.

So, in macro, to sort of give you a macro answer, we're probably pricing in the sort of 5 to 10% range. Recognize we have lots of different products with lots of different material content and impact. And ours is a business that has always been able to price and we believe that we'll be able to do that again. And the early read is that in the markets that we're participating in, the markets themselves are both pricing and pricing is sticking.

From a cost management perspective, I stated in my comments that we have initiated about \$4 million already of cost initiatives, primarily within the Cequent collection of businesses. We [and the] team have identified an additional group of initiatives. We said in our comments \$5 million. And we're just committed to sort of working through that as a source of earnings opportunity for us. We are not providing detailed quarterization of that data, but we're committed to look hard at our cost structure, certainly on the Cequent side of the business, to make sure that we retain our balance.

**Al Kabili** - Goldman Sachs - Analyst

Okay. And the 5 to 10%, that's the kind of global macro average across all your portfolio, as I understand it?

**Grant Beard** - TriMas Corporation - President, CEO

Yes. And most of that pricing is being put into the market as we speak, with the effectivity dates either beginning at the back half or the backend of this quarter coming into the third quarter.

**Al Kabili** - Goldman Sachs - Analyst

Okay. Anything was -- I think on the last call you mentioned there was also some pricing being taken at the beginning of the --

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**Grant Beard** - *TriMas Corporation - President, CEO*

A little bit. And then that pricing is sort of in the system, if you will.

**Al Kabili** - *Goldman Sachs - Analyst*

And how much is that?

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Very minor.

**Grant Beard** - *TriMas Corporation - President, CEO*

Very minor. We really are contractually protected for the most part from our major material buys through the first half of this year. So we've not incurred a great deal yet of material movement. We do expect it, it is going to come, and it's going to come namely in steel.

**Al Kabili** - *Goldman Sachs - Analyst*

Okay. All right, thank you very much.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, Al, appreciate it.

**Operator**

Our next question comes from Walt Liptak with Barrington.

**Walt Liptak** - *Barrington - Analyst*

Thanks. Good morning, Grant and Bob.

**Grant Beard** - *TriMas Corporation - President, CEO*

Good morning, Walt.

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Good morning, Walt.

**Walt Liptak** - *Barrington - Analyst*

And I thought it was a great quarter, especially considering where your stock is trading.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Thank you.

**Walt Liptak** - *Barrington - Analyst*

I think the market was probably looking for a cut in your guidance or a much lower number, so congratulations. On the inventory items, I wonder if you could talk a little bit more about why we didn't see more drawdown in inventory this quarter. And I know you don't want to give exact guidance, but cash flow is important here. Can you talk about how much inventory is going to impact -- or that reduction is going to impact your cash flow this year?

**Grant Beard** - *TriMas Corporation - President, CEO*

Well, some of it is sort of understanding how you got to where you are. And certainly we saw lots of adjustments going on in our energy sector at the back half of last year. And we had allowed our properties to buy forward on things like engines and compressors and some of our new initiatives and then the market sort of got out from under us a little bit. Those areas certainly have re-firmed up and -- in fact, we have record backlog right now. So I think you'll see, in that part of our business, starting to sell out of inventory and drive down. In our business from a working capital perspective finished the quarter at about 18% of sales. That's a little bit higher than we typically have been and want to be by a couple of basis points.

So, the other thing, Walt, is this is typically when we sort of build through the seasonal demand in our Cequent businesses. We have really moderated that build and are starting to draw those down. And some of that is supply line and some of that is allowing for our early order programs at the front end of the quarter to be filled and now starting to pull back our operations and again start to sell out of inventory. So, I'm not sure I'm getting to your question --

**Walt Liptak** - *Barrington - Analyst*

Yes.

**Grant Beard** - *TriMas Corporation - President, CEO*

-- but those are the areas where we'll see inventory come down.

**Walt Liptak** - *Barrington - Analyst*

Okay. But it sounds like starting in the second quarter, but you don't want to say in millions of dollars the magnitude in the second quarter for the year?

**Grant Beard** - *TriMas Corporation - President, CEO*

No.

**Walt Liptak** - *Barrington - Analyst*

Okay.

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**Grant Beard** - *TriMas Corporation - President, CEO*

But it is something we're focused on and something we're very committed to.

**Walt Liptak** - *Barrington - Analyst*

Okay. The \$5 million cost savings plan, if that goes through, is that going to be a special charge? How should we think about it? Is it pay as you go?

**Grant Beard** - *TriMas Corporation - President, CEO*

It's sort of --

**Walt Liptak** - *Barrington - Analyst*

Is it in the guidance?

**Grant Beard** - *TriMas Corporation - President, CEO*

It's sort of benefit as you go and it's in support of our guidance, not on top of our guidance. So I think that we are committed to making sure that we do everything we can to drive our earnings performance. And some of our cost initiatives are related to making sure that our activity levels in Cequent match market demand in the United States. And some of them are just being sort of good old fashioned proactive management.

**Walt Liptak** - *Barrington - Analyst*

Okay. Of that \$5 million, how much would be cash expense and how much would be non-operating -- or non-cash?

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

That \$5 million is the savings, Walt. And that would be net of any costs that we would incur to implement those actions.

**Grant Beard** - *TriMas Corporation - President, CEO*

So we believe we've already implemented about 4, and we, as a team, at least in our comments, are putting out an additional 5 we are looking to implement, and obviously as a management team, our list is broader than what we're talking about. Those are the savings, not the costs.

**Walt Liptak** - *Barrington - Analyst*

Okay. I thought that you had said that there was going to be -- you were looking at a second round of cost reduction.

**Grant Beard** - *TriMas Corporation - President, CEO*

Yes, and that's the 5.

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**Walt Liptak** - *Barrington - Analyst*

Okay.

**Grant Beard** - *TriMas Corporation - President, CEO*

Those are savings, not cash investments.

**Walt Liptak** - *Barrington - Analyst*

Okay. All right, got it. And the energy segment looked a lot better than I was expecting and I wonder if you could talk about the growth rate given the Arrow, the strength in the oilfield business, the Arrow business, or some of this refinery. Could we -- should we think about this kind of growth rate going forward throughout the year?

**Grant Beard** - *TriMas Corporation - President, CEO*

I would anticipate a solid year. I think those are pretty heady numbers. That's -- our MRO gasket business had a record year last year and they really haven't slowed down coming through year-to-date, and that's really been driven by high utilization rates at these refineries. And we're starting now to get our international footprint in place as we follow these big majors around, like Dow and Exxon. So I think that that's going to be a very consistent producer for us. I think the math right now is benefiting by the reestablishment, if you will, of field spend, so the capital is going back out into the oil and gas field. And right now, we're seeing our Arrow Engine Company with a record backlog. So -- and that is a very good business for us. So we expect nice strength there and don't see the commodity prices waning, so we think that people will be bullish in terms of their committed capital out in the field and that's going to absolutely benefit us.

**Walt Liptak** - *Barrington - Analyst*

Okay. Okay, thanks, guys.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, thanks, Walt.

**Walt Liptak** - *Barrington - Analyst*

Have a great day.

**Operator**

Our next question comes from Tom Klamka with Credit Suisse.

**Tom Klamka** - *Credit Suisse - Analyst*

Morning.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Hi, Tom.

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Hello, Tom.

**Tom Klamka** - *Credit Suisse - Analyst*

Could you talk about how much was Monogram up in sales this past quarter, and was ISG up excluding Monogram?

**Grant Beard** - *TriMas Corporation - President, CEO*

Tom, we normally don't really sort of dissect the elements of our group like that. I will tell you that Monogram had a good quarter and Monogram is going to have continued strength as we come across the year. And really it's not just good plain builds, which it looks like the backlog looks pretty good, but it's really our new products in the expansion of application for our composite lock and titanium fastening products. It's allowing that company to sort of build that great backlog. And, as you know, that is a good business for us.

**Tom Klamka** - *Credit Suisse - Analyst*

Yes, it's a great business. I guess I was trying to get to was the rest of ISG up in total excluding Monogram or was it all the strengths year over year coming out of that one segment?

**Grant Beard** - *TriMas Corporation - President, CEO*

I would say that elements within ISG were up, other than Monogram and a couple of our smaller businesses that we highlighted in our comments. Our cutting tool and fittings business were -- saw a little softness.

**Tom Klamka** - *Credit Suisse - Analyst*

Okay. And the cylinder business, I guess you said the international business continues to be strong. What about the domestic side?

**Grant Beard** - *TriMas Corporation - President, CEO*

The domestic business really is sort of flat and we're seeing really a combination of our product and I think our brand and, frankly, a weak dollar is allowing us to get our product pushed out into new markets for us. And we were really pleased with the activity we saw in '07 and it looks like that momentum is going to continue for us in '08.

**Tom Klamka** - *Credit Suisse - Analyst*

Okay.

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**Grant Beard** - *TriMas Corporation - President, CEO*

So we're taking cylinders now into places like South Africa, South America, a little bit into Southeast Asia, into parts of Western Europe. Two years ago, we didn't sell anything into those markets. So this is a whole new ground for us and we're quite pleased with how the team has positioned us to get revenue there.

**Tom Klamka** - *Credit Suisse - Analyst*

And on Cequent, I have two questions. What are you seeing there as far as competitive price action from other guys, like Master, in the market? And, then, given that you're sourcing more from Asia, how easy is it to flex your production?

**Grant Beard** - *TriMas Corporation - President, CEO*

Certainly, the flexing of production has gotten a lot, lot easier. I mean, we have done a good job of sort of variabilizing this collection of properties. The pricing looks like the market is acting rational and we anticipate attainment in our pricing, and some of that is because we have a cost advantage and some of that is because of our position in our bundling. But market participants all seem to be headed in the same direction. Now, the impact of steel has not really come across our bow yet given some of our contractual protection, and it's hit other people before us and people are out -- are beginning to go out and price. So that's a very good sign.

**Tom Klamka** - *Credit Suisse - Analyst*

Okay, thanks a lot, Grant.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, thanks, Tom.

**Operator**

Our next question comes from Steve Barger with KeyBanc.

Good morning, guys. This is actually Joe Box filling in for Steve.

**Grant Beard** - *TriMas Corporation - President, CEO*

Hi, Joe.

**Joe Box** - *KeyBanc - Analyst*

Just looking at your incremental contribution margins in energy, it was a little bit less than I would have expected given the improvement at Arrow. Is there any way that you could frame up the expenditures in the business and maybe talk about when you expect to see a benefit from this cost build-out?

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**Grant Beard** - *TriMas Corporation - President, CEO*

I think sort of at the macro level, we're launching some new satellites and we have those expenses as we build our service footprint into China and we are looking at an initiative in Western Europe. So we certainly are deploying a dollar sort of down in the SG&A line to position ourselves for growth. Frankly, I think the conversion I thought was pretty good given the new product development and new product expenses and marketing initiatives that we've allowed that group to incur. And we're really just now getting to the commercialization phase of our additional well-site products - compressors and these accumulators and these other components. So, I don't know if I'm getting to your point, but I think that that will show itself as we walk forward even more so.

**Joe Box** - *KeyBanc - Analyst*

That's helpful. Also, you guys talked about normal working cap cycles that tend to build in the first half and then declines in the second half. Given the economic risks that everybody is facing right now, how much risk is there to that typical cycle?

**Grant Beard** - *TriMas Corporation - President, CEO*

I don't think much because we're already starting to sell down and obviously we can moderate what we buy and what we build. So I just don't see it as being an initiative that has risk to it. That doesn't mean that it doesn't take a lot of work and -- but we are being very disciplined in our view, especially the Cequent end market, and making sure we're -- and we're looking at those dailies and we're looking at market inventories very, very closely.

**Joe Box** - *KeyBanc - Analyst*

Okay, thanks. Also, just thinking about your guidance, is there any way you'd be willing to share maybe what you're building in in terms of interest rates and maybe the cost of diesel?

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

What's the last one?

**Grant Beard** - *TriMas Corporation - President, CEO*

Cost of diesel and interest rates. In our --

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Well, I was going to say from an interest rate point of view, we're currently just above 5% on our variable rate borrowings and pretty much have -- expect that to continue. We did recently enter into an interest rate flop agreement which fixes the rate at just under 5% on about \$125 million of our term loan. So half of that term loan will be fixed at just below 5% and the other half will vary. We think, on average, that's going to probably get us in the low 5's for the remainder of the year.

**Joe Box** - *KeyBanc - Analyst*

Okay. No, actually I was looking for some of the macro assumptions that are going into your forecast.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Well, I think when you look at freight cost it's no different than material cost. And we believe that our pricing strategies will maintain flat material margins. And we see -- I mean, freight is going to go up just like certain types of materials. So we're assuming that we can cover those costs and hold our margins.

**Joe Box** - *KeyBanc - Analyst*

Okay, fair enough. Thanks for your time, guys.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, thank you, Joe.

**Operator**

Our next question comes from Curt Woodworth with JP Morgan.

**Curt Woodworth** - *JP Morgan - Analyst*

Hi, good morning.

**Grant Beard** - *TriMas Corporation - President, CEO*

Hi, Curt.

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Good morning.

**Curt Woodworth** - *JP Morgan - Analyst*

I had to jump on the call late, so I apologize if any of these questions were touched on. But in terms of the packaging market, can you talk about kind of the competitive dynamics you're seeing, how is pricing holding up, how kind of the cost inflation on resin is impacting the business?

**Grant Beard** - *TriMas Corporation - President, CEO*

Sure. We really have sort of three-legged stool there. I mean, in our Packaging Group we have a laminates business that sells a product into the commercial construction market. And that was down in the first quarter and I think we'll probably see a little bit of softness for the remainder of the year, as commercial construction doesn't really have any catalysts or impetus behind it right now. We do and sell a lot into refurbishment, which is a good thing.

But, then, our second, and the largest portion of our business, which is our industrial closure business, really sells into a huge sort of fragmented end markets from paints and chemicals and agriculture and food and consumer products. But it's stuff that's going into a steel or plastic drum. And in North America and in Europe, it's really been flat for really the last three quarters.

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Usually that business is a good leading indicator of an economic slowdown. It's all -- usually a pretty good indicator when things are going to go the other way. And it has been very flat, which we think is sort of a good thing.

And, then, really on our focus for the growth, the specialty dispensing that we're taking into beverage and pharma and specialty applications, we're seeing pretty good growth. We'd like the business to go a little bit faster and we can't wait until it's a bigger portion of our story. The industrial side is a wonderful cash cow for us, but it's going to sort of follow GDP.

So, to get to your question in pricing, we expect and see pass-through capabilities and are not seeing in our growth initiatives any degradation in margins or any lessening in the attractiveness of new programs.

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**Curt Woodworth** - *JP Morgan - Analyst*

Okay, great. And for the energy segment, I mean, looking in past quarters, it seems that it's relatively flat quarter to quarter throughout the year. I'm sure there is some seasonality, but the \$49 million this quarter was definitely step function up. I mean is that kind of the run rate you would see the rest of the year at or was there any, in either inventory replenishment or more one-time items in the natural gas business that we should think about in terms of revenue outlook for the year?

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**Grant Beard** - *TriMas Corporation - President, CEO*

Well, there is a little bit of cyclical or seasonality rather to it on the field side. People try to get capital out into the field before the things melt and get very difficult. So then there's a period of time when it's very difficult to get out into the Western Canada and Western U.S. field. So there's a little bit of that. I think there is a reestablishment of demand for capital, so that's why you see our backlogs at record levels. And I think the underlying sort of utilization in these refineries has been great. So for the first time in a long time there's sort of new capacity going on to existing refineries in North America and they've ran these factories very hard and delayed as long as they could significant turnarounds. So we expect there to be pretty good strength coming across the year. I don't think we'll quite sustain the pace we had in the first quarter, but we think this group will work very hard for us in '08.

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**Curt Woodworth** - *JP Morgan - Analyst*

Okay. And in terms of the guidance, obviously, you do start to get a little bit easier comparisons, RV Trailer and Rec. Is your assumption in your guidance kind of like the performance and end market conditions you saw in this quarter are going to persist for the remainder of the year?

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**Grant Beard** - *TriMas Corporation - President, CEO*

I think the end market for the Cequent businesses is going to be the same across the year. And we're not anticipating any strengthening of demand against our assumption, if that's your question.

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**Curt Woodworth** - *JP Morgan - Analyst*

Okay. Yes, I mean, I think that's --

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**Grant Beard** - *TriMas Corporation - President, CEO*

We think --

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**Curt Woodworth** - *JP Morgan - Analyst*

That makes sense. I mean, how probable is it that demand continues to go down from current levels? I mean, is that in your guidance or are you kind of just saying we think it's going to stabilize at this low rate?

**Grant Beard** - *TriMas Corporation - President, CEO*

Our view is it's certainly, volumetrically, going to be down and we -- our assumption is that, at minimum, 10 to 15%, sort of in that range. And statistics would suggest that that's a pretty good assumption right now. I suppose it could get worse, but we're certainly not seeing that right now. But remember this is a tough year. On the back of '07 it was a tough year. So that -- we've got end markets that are probably, from their cyclical peak, really, really down.

**Curt Woodworth** - *JP Morgan - Analyst*

Yes. Yes, I'm just trying to get a sense of how conservative do you think you really are in terms of looking at this market. Because, then, it's low visibility, so I know it's difficult, but --

**Grant Beard** - *TriMas Corporation - President, CEO*

I think we're trying to be conservative.

**Curt Woodworth** - *JP Morgan - Analyst*

Yes. Okay, great. Thank you very much.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, thank you.

**Operator**

Our next question comes from [Chet Mulhauser] with [DA Capital].

**Chet Mulhauser** - *DA Capital - Analyst*

Hi, gentlemen.

**Grant Beard** - *TriMas Corporation - President, CEO*

Hi, Chet.

**Chet Mulhauser** - *DA Capital - Analyst*

I had a question about sort of you had touched up on the 55-gallon drum business in the packaging segment.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Yes.

**Chet Mulhauser** - *DA Capital - Analyst*

Could you kind of speak to the margin differential between that business and the compact business, as well as sort of the special packaging side of the business? And do you think that that would have an impact on the group as the economy -- I mean, you had said initially that's it's very economically sensitive, but how much of an impact do you think it could have towards the back half of the year if that business does start to slow down?

**Grant Beard** - *TriMas Corporation - President, CEO*

If I -- the packaging sort of closure and specialty dispensing businesses are by and large support margins that are ahead or higher than the group level. And our laminate business that we sell into commercial construction is substantially underneath. And so at some level, if we get more than anticipated weakness, it really doesn't hurt you that much. I mean, in a sense. But I think our view is that there is sensitivity to construction material and I think our -- I think we've reflected it in our view.

**Chet Mulhauser** - *DA Capital - Analyst*

Okay, great. And also, I guess in Cequent, it looks like you've had very strong growth from overseas. I'm sure the dollar has helped there as well, as well as new product introductions. What percentage of Cequent is represented by sort of overseas markets?

**Grant Beard** - *TriMas Corporation - President, CEO*

About 15%. And it's really less export business via the dollar; it's really new product and market expansion from our Australian company. And there's been a pretty good mining economy down there and the basic economy has been pretty strong. And that business is growing itself into Thailand and that has allowed us to start to get content into new markets. So we're pretty bullish about that part of our activity. We wish it obviously was a little bit larger for the group, but it's growing quite nicely and the fundamentals look pretty good.

**Chet Mulhauser** - *DA Capital - Analyst*

Got you. And where do you expect that to grow sort of by 2008?

**Grant Beard** - *TriMas Corporation - President, CEO*

We're not sort of providing that kind of detailed guidance within our elements of our segments, but we expect it to continue to grow and be a good workhorse for us.

**Chet Mulhauser** - *DA Capital - Analyst*

Great, thank you.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Sure.

**Chet Mulhauser** - *DA Capital - Analyst*

And one more question, if you will. On the liquidity side, looks like you have plenty of room under your covenants. Do you -- is there sort of a meaningful step down towards the back half of the year?

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

No. The leverage covenant, which is probably the most significant of the two, steps down to 5.0 times effective July 1, and it remains at that level through June 30th, '09.

**Chet Mulhauser** - *DA Capital - Analyst*

I see. Great. And your securitization program, when does that expire?

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Well, we're on a 364-day term facility, so we would expect to renew that consistent with what we did a year ago in the January/February '09 time frame.

**Chet Mulhauser** - *DA Capital - Analyst*

Great. Thank you. I'll get back in queue.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay, thanks.

**Operator**

Our next question comes from Todd Miranowski with Silver Point.

**Todd Miranowski** - *Silver Point - Analyst*

Good morning.

**Grant Beard** - *TriMas Corporation - President, CEO*

Good morning, Todd.

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Good morning.

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**Todd Miranowski** - *Silver Point - Analyst*

Two quick questions for you. First is, any update on the sale process for your discontinued operations?

**Grant Beard** - *TriMas Corporation - President, CEO*

None in a meaningful or material update. I mean, we are in the process of -- in a sale process, but that's all we can say. We're committed to selling those properties, but no update at this point.

**Todd Miranowski** - *Silver Point - Analyst*

Okay. And then the second question on Cequent. I understand that the market is tough, but was surprised to some extent by the extent to which the margins were down in those two businesses. How much of that is sort of a one-time sort of slowdown in an effort to keep inventory under control and how much of it is sort of indicative of the run rate margins in those businesses?

**Grant Beard** - *TriMas Corporation - President, CEO*

Well, we think there was a tremendous influence on us sort of moderating activity and sort of fighting, sort of absorption. And we took out significant man hours across the border. And as we sort of flexed down and start to sell out of inventory, it certainly dilutes your sort of operational margins. So we would not expect that kind of conversion to continue.

**Todd Miranowski** - *Silver Point - Analyst*

Got it. So, even if the end market remains as soft as it is now, you'd expect operating margins in the segment to be up over the remainder of the year?

**Grant Beard** - *TriMas Corporation - President, CEO*

I think that's fair, yes.

**Todd Miranowski** - *Silver Point - Analyst*

Okay, great. That's it. Thank you very much.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay.

**Operator**

Our next question comes from [France R. Rufolo] with Blue Mountain Capital.

**France R. Rufolo** - *Blue Mountain Capital - Analyst*

Good morning.

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**Grant Beard** - *TriMas Corporation - President, CEO*

Good morning.

**France R. Rufolo** - *Blue Mountain Capital - Analyst*

Thank you. I missed the first ten minutes of the call, so I apologize if you addressed it at the beginning. I was wondering if you could comment on the resignation of the CFO? Just give us our -- your -- the background and -- behind --

**Grant Beard** - *TriMas Corporation - President, CEO*

Sure. Skip was somebody that worked for our company for many years and we just decided together that the skills going forward and what he wanted to do and what our company needed were a little inconsistent with one another, so we launched him in a new direction and he's got a great future in front of him and we are in the final processes of bringing in a new member to our team and would expect those announcements a little bit later in the quarter.

**France R. Rufolo** - *Blue Mountain Capital - Analyst*

Thank you.

**Grant Beard** - *TriMas Corporation - President, CEO*

Sure.

**Operator**

There are no further questions at this time.

**Grant Beard** - *TriMas Corporation - President, CEO*

Okay. Well, if there are no further questions, we thank everybody for your participation in today's call and that will conclude our call. Thank you.

**Bob Zalupski** - *TriMas Corporation - VP of Finance, Treasurer*

Thank you.

**Operator**

Ladies and gentlemen, that concludes today's presentation. You may now disconnect.

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