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Interviews & News!

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American Pacific Is Continuing To Build On The Successful Growth Of Their Fine Chemicals Business As Well As Their Aerospace Business



Basic Materials
(APFC-NASDAQ)

American Pacific Corporation
(AMPAC)

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John R. Gibson
Chairman of the Board, Director

BIO:

John R. Gibson has been a Director of the Company since 1988 and currently serves as the Chief Executive Officer and Chairman of the Board. Mr. Gibson became Chief Executive Officer and President of the Company in July 1997 and

was appointed Chairman of the Board in March 1998. As of October 2006, Mr. Gibson resigned his position as President with the appointment of Dr. Carleone to the office of President and Chief Operating Officer. Mr. Gibson also serves as the Chief Executive Officer and President of the Company's wholly-owned subsidiaries, including Ampac-ISP Corp., since 2004, Ampac Farms, Inc. and American Pacific Corporation (Nevada), since 1997, and American Azide Corporation since 1993. Mr. Gibson was the Company's Vice President-Engineering & Operations from March 1992 to July 1997. Prior to that time, Mr. Gibson was the Director of Modernization of USS POSCO Industries, a finishing mill for flat rolled steel products, a position Mr. Gibson held for more than five years.

Company Profile:

American Pacific Corporation (AMPAC) was founded in Henderson, Nevada, U.S., in 1955 for the purpose of manufacturing specialty chemicals, principally oxidizers. Since then, our business has expanded to focus on three primary business segments: Specialty Chemicals, Fine Chemicals and Aerospace Equipment. Our customers and product distribution now span most of the globe. Our corporate headquarters is located in Las Vegas, Nevada, U.S., and our state-of-the-art manufacturing facilities are located in California, New York, Utah, U.S., and the United Kingdom.

AMPAC is recognized as a leading manufacturer of specialty and fine chemicals within our focused markets. Our aerospace equipment and primary specialty chemicals products are utilized in commercial space and national defense programs that provide access to, and movement in, space via solid rocket pro-

pellant and propulsion thrusters and systems. AMPAC's newest product line, pharmaceutical fine chemicals, provides the key active ingredient in certain antiviral, oncology and central nervous system drug applications. Additional products include specialty chemicals utilized in various applications such as other pharmaceuticals, fire protection and water treatment.

Through technical and manufacturing expertise and a focus on customer service, AMPAC has achieved a reputation for quality, reliability, technical performance and innovation. Given the mission-critical nature of most of our products, we have established longstanding strategic customer relationships, and we work collaboratively with customers to develop customized solutions that meet rigorous U.S. federal and international standards. Products are generally sold through long-term contracts.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Gibson, what is your vision today for American Pacific?

Mr. Gibson: "When I spoke to you a year ago we had the vision of growing our fine chemical business and our aerospace business, and we are in the process of making that happen. Our vision is the same today as it was a year ago. Everything we had anticipated we would be able to accomplish in this past year has turned out to be true and we look forward to the future. We have been very focused on developing the three legs of our business; we have one in specialty chemicals and the second one is fine chemicals, and a third in aerospace equipment. We had indicated that the organic growth of spe-

cialty chemicals was not something we expected in the future but rather fine chemicals and aerospace equipment are where we do anticipate growth.”

CEOCFO: Would you tell us about the area of fine chemicals, which is a strong growth area for you?

Mr. Gibson: “Fine chemicals is a very interesting business in which we produce active pharmaceutical ingredients. Specifically, for certain antiviral applications such as HIV drugs, we produce the active ingredient. For the treatment of certain cancers we do the same and also for central nervous system problems. These drugs or molecules we make are critical in drug effectiveness and we worked very closely with companies to be certain that the quality of the product meets expectation and that delivery is on time. What is also interesting is that we do a lot of business overseas; specifically in Europe and we are very successful with maintaining those relationships. We have, ironically, benefited from the weak dollar, strong Euro, strong pound. Therefore, we have a very firm foundation in this field. As an example, in 2006, we were permitted by Roche to indicate publicly that we made the active ingredient in TAMIFLU. It is very special applications in fine chemicals which require very precise work in the laboratory to develop that have become our focus; the processing results are very thoroughly documented and closely controlled and subject to an unannounced FDA audit at any time.”

CEOCFO: What is the competitive landscape in that segment of the business, and why are the pharmaceutical companies choosing to partner with AMPAC?

Mr. Gibson: The competitive landscape is one in which there is very intense competition. How we are distinguished from other kinds of commercial activity is that we do not make commodity chemicals. Therefore, as opposed to competing sim-

ply on the basis of the product and price, you compete on the ability to convince the final drug company customer that you know what you are doing, that you are reliable and that they get the same thing every time. This is what I believe we have done. In almost every case, we are either dual source or single source. That ability to obtain and maintain a relationship with these customers is important. We also have to stay ahead of the game. You have to watch developments in the busi-

“Investors should pay attention because we are in three areas where I believe the future of America is. There is no question that healthcare is a key to all of this. We are participating in sophisticated chemicals that are used to treat difficult diseases and that will become even more important in the future. As for aerospace equipment, I think the future is in space. It may sound corny but what Columbus looked at 600 years ago and wanted to cross the unknown ocean is today space and the practical use of space. Satellites are incredible; the ability to be out in the middle of the ocean and talk to somebody on land without having to worry about a radio signal is amazing and that is the area that we focus on. Specialty chemicals is a very sound business and we have a reliable one. You have two areas out of three where there is growth and importance in American business generally and a third one that is stable and provides the platform for the company to maintain its performance. This year, we anticipate and have given guidance of \$195 million and it wasn’t very long ago that we were only doing somewhere between 60 and \$70 million. That is my view; I hope it can continue, there is no guarantee ever but I think it is a good story.” - John R. Gibson

ness and be prepared to produce certain other fine chemicals or molecules.

In this business, the intellectual property protection by patent expires. We are not a generic fine chemical producer so we are dependent on intellectual property that determines the processing method protected by patent.”

CEOCFO: Does AMPAC figure out how to produce it or does the drug company tell you the way it needs to be done?

Mr. Gibson: “There is some of both but in almost every case the original agreement is based on the customer telling us how to do it and by a method that has been demonstrated in seeking FDA approval. As you begin to have experience in making a product and working with a drug company, you can naturally run into problems here and there. However, I believe we have a reputation of dealing with problems very effectively. If you get a better or quicker way to get to the end molecules, you then can, hopefully convince the customer this is the change that should be made. You go on down the road. What we have prided ourselves in is to respond very effectively and immediately to any issue the customer may have.”

CEOCFO: ‘Exceeding customer expectations’ has been part of AMPAC!

Mr. Gibson: “That is correct. It is not just lip service; we really do mean it. I personally call on customers on a somewhat regular basis. My president especially is very close to every customer we have. You have to have that commitment down the line with a staff like ours of 500 people and four manufacturing locations, three in America and one in the UK. You have to be certain that the effort you make is the right one that is effective, timely; it is what the customer wants.”

CEOCFO: What is happening in the other segments of AMPAC?

Mr. Gibson: “Our aerospace equipment segment includes small liquid in space thrusters for satellites primarily, plus propellant storage for satellites. It is a healthier business today than it was a few years ago. We do business with major manufacturers such as Boeing and Lockheed Martin. It is also a business that although all of these contracts are competitively bid, there are just a few producers. In fact there is really only one other in America today. In that business, we aren’t at the size we want to be and by

that I mean that we are selling at a rate at 15 or \$19 million per year. We think in order to bring a better return on our investment our objective is to double that size and we expect that that will be accomplished by acquisition. Therefore, we are looking regularly at potentially to tack something on to our business that would bring that revenue level up. What is also happening in today's world is there are people working on electric propulsion and we have some work in that area. I am very optimistic about our in-space propulsion business both here and overseas."

CEOCFO: Is the overseas market a growing market in general?

Mr. Gibson: "The overseas market, interestingly, is not well known publicly. It is a matter of public record because trade shipments are in the public record. We do business in thirty-four countries and 40% of our revenue is export, which I imagine would be surprising to some. It has been good at this time because the dollar is weak relative to other currencies so we are very competitive overseas."

CEOCFO: Are there geographic areas where you would like to be more active?

Mr. Gibson: "We look at Western Europe as an obvious opportunity for us. Although we have done business both in Japan and South Korea, I think we have to be somewhat bigger before we entertain the idea that we would actively market that area with a presence there. We entertain any potential order that would ship to Asia as we do business in Japan, Korea and the Philippines. It has been very good but we are not at the size where that would be something we should aggressively pursue."

CEOCFO: You have a focused growth strategy; will you elaborate a bit more on what your strategy is going forward?

Mr. Gibson: "The fine chemical segment is a business in which capital spending over time becomes significant. Each year we put together our projects and budget and it is submitted and approved. This year for example capital spending at AMPAC will approach about \$17 million, mostly in fine chemicals. There is a substitute for that. That substitute is to find a complementary business that could be added to it that would achieve the

same purpose. The advantage is that you would then have something working and running and all the bugs have been corrected and it is a method that if you pay the right price in fine chemicals it is a direct substitute in capital spending.

In aerospace equipment, in our opinion, although we do some development work, an acquisition or a complementary facility is the way we will grow that business. It is not quite as effective to perform the same growth by capital spending; you have to find a business that is complementary to it. It should be one that already is servicing common customers or new customers. In specialty chemicals you essentially have mature products, ammonium perchlorate and associated perchlorates, i.e. sodium and potassium, which are all mature chemicals. Basically they are oxidizers used for various applications. However, in our opinion there is not a high likelihood of organic growth in those areas. On the other hand, we do make Halotron™ which is a substitute for Halon and is a clean fire extinguishing chemical. Growth has been very modest, but we continue to be active in the market and with the idea that in time we will continue to develop. It is profitable today and we hope more so in the future. Sodium azide, which was the primary airbag-inflating chemical, is very effective in certain other applications. Therefore, we have attempted to develop it as a pesticide although it is not yet approved by EPA. It is also potentially used in other areas.

Finally, the water treatment equipment business which consists of equipment designed and built in the same location and with the same people as our specialty chemicals is a business that is basically been at the level of 5 to \$8 million per year. It is a good business with low overhead and has been reliable for many years. We don't expect, unless there is some major opportunity we see at a reasonable price, that it will grow much beyond what it is. In the three segments, specialty chemicals has potential to grow but only with successful product development, while in aerospace we definitely believe growth is possible and in fine chemicals we believe that growth is es-

sential either through capital spending or acquisition."

CEOCFO: You have a nice variety!

Mr. Gibson: "It has taken some time. I certainly don't pretend to understand why the market moves one way or the other. We certainly have convinced the investor market that we have a good show and in the past year the share price has increased. Whether that will continue in the future I do not know but we have been very pleased with the reflection of what we have done and the price of our shares on market. Hopefully all shareholders are and should be pleased with that."

CEOCFO: In terms of acquisition potential, is there much to pick from and is it a good time to look for acquisitions?

Mr. Gibson: "We have Lincoln International of Chicago representing us in the fine chemical area where we are trying to find something we can tack on that is complementary. There are a lot of opportunities; it is finding the right one at the right price. In the case of aerospace equipment we know the field; we know aerospace and we have been involved with it for over fifty years. In that area we work directly in the market place trying to find the right business. After all, we have looked at four to six opportunities and it may only be one that works out but you have to be out there actively pursuing in order to find the right one."

CEOCFO: AMPAC has a compelling story; why should investors be paying attention today?

Mr. Gibson: "Investors should pay attention because we are in three areas where I believe the future of America is. There is no question that healthcare is a key to all of this. We are participating in sophisticated chemicals that are used to treat difficult diseases and that will become even more important in the future. As for aerospace equipment, I think the future is in space. It may sound corny but what Columbus looked at 600 years ago and wanted to cross the unknown ocean is today space and the practical use of space. Satellites are incredible; the ability to be out in the middle of the ocean and talk to somebody on land without having to worry about a radio signal is amazing and that is the area that we focus on. Spe-

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CEOCFO: What might investors overlook that should be recognized?

Mr. Gibson: "The most difficult point in the past was investors would look hard

but then they would say, 'You guys got a single point of failure'. That single point of failure was specialty chemicals and specifically NASA and the space shuttle and our product is used as the oxidizer for the boosters in the space shuttle. The fact is we made our last shuttle booster material in August of 2005. That is almost three years ago but our company has done quite well in that area even though that business itself in that specific application has been absent for the last almost three years. I think we are adaptive; we are able to adapt to changing times and we have done very well at that."

CEOCFO: Finally, you pride yourself on running a lean organization; how do you continue that as you grow?

Mr. Gibson: "You have to work on that everyday. I don't believe in just generally cutting your head count across the board; we don't do it that way. What we do is for example have no formal sales department, but that doesn't mean selling isn't important. Selling is critical but we do that as a function of all of our jobs. We have no formal legal in-house organization so that also is an area where we work closely with an outside firm when required. We are able to operate with a leaner budget. We try to use outside services whenever we can if it makes sense as opposed to a permanent employee. Leanness in the organization is very important."



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