

AMERON INTERNATIONAL CORP
Form 10-Q
June 20, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2002

or

**// TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 1 - 9102

AMERON INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of

incorporation or organization)

**245 South Los Robles Avenue
Pasadena, California 91101-2820**
(Address of principal executive offices)

(626) 683-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No //

The number of shares outstanding of Common Stock, \$2.50 par value, was 3,915,282 on May 31, 2002. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION

INDEX

Page

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	
	Consolidated Statements of Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Market Risk Disclosure	14

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	14
Item 2.	Changes in Securities	14
Item 4.	Submission of Matters to a Vote of Security Holders	14
Item 6.	Exhibits and Reports on Form 8-K	15
	SIGNATURE PAGE	16

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

Ameron International Corporation and Subsidiaries
Consolidated Statements of Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2002	2001	2002	2001
Sales	\$ 138,099	\$ 143,670	\$ 258,801	\$ 265,275
Cost of Sales	(102,535)	(108,904)	(192,798)	(200,610)
Gross Profit	35,564	34,766	66,003	64,665
Selling, General and Administrative Expenses	(28,138)	(26,943)	(55,376)	(53,441)
Equity in Earnings of Joint Ventures	4,006	2,889	4,820	3,888
Other Income, Net	1,294	1,987	2,271	2,796
Income before Interest and Income Taxes	12,726	12,699	17,718	17,908
Interest Income	67	52	85	105
Interest Expense	(1,672)	(2,925)	(4,078)	(5,993)
Income before Income Taxes	11,121	9,826	13,725	12,020
Provision for Income Taxes	(3,559)	(2,752)	(4,392)	(3,366)
Net Income	\$ 7,562	\$ 7,074	\$ 9,333	\$ 8,654
Net Income per Share (Basic)	\$ 1.95	\$ 1.83	\$ 2.41	\$ 2.24
Net Income per Share (Diluted)	\$ 1.82	\$ 1.78	\$ 2.25	\$ 2.20
Weighted Average Shares (Basic)	3,874,345	3,870,107	3,873,676	3,869,732
Weighted Average Shares (Diluted)	4,165,128	3,963,523	4,152,257	3,928,746
Cash Dividends per Share	\$.32	\$.32	\$.64	\$.64

See accompanying notes to consolidated financial statements.

3

Ameron International Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

	May 31, 2002 (Unaudited)	November 30, 2001
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 7,293	\$ 11,315
Receivables, Less Allowances of \$7,232 in 2002 and \$6,699 in 2001	141,313	135,963
Inventories	90,624	92,534
Deferred Income Taxes	19,242	19,242
Prepaid Expenses and Other Current Assets	7,724	6,654
	-----	-----
Total Current Assets	266,196	265,708
Investments, Advances and Equity in Undistributed Earnings of Joint Ventures	20,012	18,780
Property, Plant and Equipment, Net	144,582	145,801
Intangible assets, Net of Accumulated Amortization of \$8,107 in 2002 and \$7,623 in 2001	13,071	13,158
Other Assets	41,847	41,633
	-----	-----
Total Assets	\$ 485,708	\$ 485,080
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ 1,292	\$ 4,080
Current Portion of Long-Term Debt	100,757	8,597
Trade Payables	38,872	46,703
Accrued Liabilities	44,279	47,486
Income Taxes Payable	1,657	2,352
	-----	-----
Total Current Liabilities	186,857	109,218
Long-Term Debt, Less Current Portion	52,288	137,197
Other Long-Term Liabilities	29,728	34,418
	-----	-----
Total Liabilities	268,873	280,833
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 3,915,282 Shares in 2002 and 3,873,007 in 2001, Net of Treasury Shares	13,122	13,017
Additional Paid-In Capital	20,887	19,457
Retained Earnings	254,248	247,406
Accumulated Other Comprehensive Loss	(22,763)	(26,974)
Treasury Stock (1,333,655 Shares in 2002 and 2001)	(48,659)	(48,659)

Total Stockholders' Equity	216,835	204,247
Total Liabilities and Stockholders' Equity	\$ 485,708	\$ 485,080

See accompanying notes to consolidated financial statements.

4

Ameron International Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended May 31,	
	2002	2001
Cash Flows from Operating Activities		
Net Income	\$ 9,333	\$ 8,654
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	8,915	8,815
Amortization	329	561
Provision for Deferred Income Taxes	1,598	210
Equity in Earnings of Joint Ventures	(4,820)	(3,888)
Dividends from Joint Ventures	4,125	4,230
Gain from Sale of Assets	(57)	--
Stock Compensation Expense	1,433	1,252
Changes in Operating Assets and Liabilities:		
Receivables	(3,580)	536
Inventories	3,130	(6,513)
Prepaid Expenses and Other Current Assets	(971)	(351)
Other Assets	(214)	(3,844)
Trade Payables	(8,504)	5,392
Other Current Liabilities	(4,304)	(8,729)
Other Long-Term Liabilities	(6,246)	1,986
Net Cash Provided by Operating Activities	167	8,311
Cash Flows from Investing Activities		
Proceeds from Sale of Property, Plant and Equipment	232	221
Additions to Property, Plant and Equipment	(6,079)	(12,467)
Net Cash Used in Investing Activities	(5,847)	(12,246)
Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	(3,194)	364
Issuance of Debt	7,040	8,617

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Repayment of Debt, Net	--	(273)
Dividends on Common Stock	(2,491)	(2,477)
Issuance of Common Stock	102	111
Purchase of Treasury Stock	--	13
	-----	-----
Net Cash Provided By Financing Activities	1,457	6,355
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	201	(100)
	-----	-----
Net Change in Cash and Cash Equivalents	(4,022)	2,320
Cash and Cash Equivalents at Beginning of Period	11,315	11,514
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 7,293	\$ 13,834
	=====	=====

See accompanying notes to consolidated financial statements.

5

Ameron International Corporation and Subsidiaries Notes to Consolidated Financial Statements (In Thousands Except Share Data) (Unaudited)

Note 1. Basis Of Presentation

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation and all wholly-owned subsidiaries (the "Company" or "Ameron") at May 31, 2002, and its consolidated results of operations and cash flows for the three and six months ended May 31, 2002 and 2001. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in Ameron's Annual Report on Form 10-K for the year ended November 30, 2001 ("2001 Annual Report").

Note 2. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. SFAS No. 142 is effective for the Company and will be adopted beginning December 1, 2002. The Company is currently evaluating the impact of adopting SFAS No. 142.

SFAS No. 143, "Accounting for Asset Retirement Obligations," which becomes effective for the Company on December 1, 2002, addresses the obligations and asset retirement costs associated with the retirement of tangible long-lived assets. SFAS No. 143 requires that the fair value of the liability for an asset retirement obligation be recorded when incurred. The asset retirement costs must be capitalized as part of the carrying value of the long-lived asset. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The Company is currently assessing the impact of adopting SFAS No. 143.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

SFAS No. 144, "Impairment or Disposal of Long-Lived Assets," will become effective for the Company on December 1, 2002. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and provides guidance on implementation issues related to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and addresses the accounting for a segment of a business accounted for as a discontinued operation. The Company is currently assessing the impact of adopting SFAS No. 144.

6

Note 3. Inventories

Inventories are stated at the lower of cost or market. Inventories were comprised of the following:

	May 31, 2002	November 30, 2001
	-----	-----
Finished Products	\$ 56,824	\$ 58,397
Materials and Supplies	20,788	22,084
Products in Process	13,012	12,053
	-----	-----
	\$ 90,624	\$ 92,534
	=====	=====

Note 4. Supplemental Disclosure of Cash Flow Information

	Six Months Ended May 31,	
	2002	2001
	-----	-----
Interest Paid	\$ 3,842	\$ 6,065
Income Taxes Paid	\$ 3,592	\$ 3,850

Note 5. Joint Ventures

Operating results of joint ventures, which were accounted for by the equity method, were as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net Sales	\$ 52,105	\$ 57,958	\$ 103,834	\$ 110,888
Gross Profit	\$ 13,476	\$ 14,025	\$ 28,403	\$ 29,596
Net Income	\$ 6,137	\$ 7,150	\$ 13,442	\$ 13,868

Amounts shown above include the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three and six months ended March 31, 2002 and 2001 and TAMCO for the three and six months ended May 31, 2002 and 2001.

Note 6. Net Income Per Share

Basic net income per share is computed on the basis of the weighted average number of common shares outstanding during the periods presented. Common shares outstanding includes 40,000 restricted shares issued during the quarter ended May 31, 2002. Unvested restricted shares that are forfeitable are excluded from the basic share calculation. Diluted net income per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options and other common stock equivalents, using the treasury stock method. All outstanding common stock equivalents were dilutive for the three months ended May 31, 2002, while options to purchase 10,500 common shares were anti-dilutive for the six months ended May 31, 2002. For the three and six months ended May 31, 2001, options to purchase 116,000 common shares were anti-dilutive.

7

Following is a reconciliation of the weighted average number of shares used in the computation of basic and diluted net income per share:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2002	2001	2002	2001
Basic Average Common Shares Outstanding	3,874,345	3,870,107	3,873,676	3,869,732
Dilutive Effect of Common Stock Equivalents	290,783	93,416	278,581	59,014
Diluted Average Common Shares Outstanding	4,165,128	3,963,523	4,152,257	3,928,746

Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2002	2001	2002	2001
Net Income	\$ 7,562	\$ 7,074	\$ 9,333	\$ 8,654
Foreign Currency Translation Adjustment	4,228	(4,443)	3,674	(2,204)
Comprehensive Income from Joint Venture	517	--	537	--
Comprehensive Income	\$ 12,307	\$ 2,631	\$ 13,544	\$ 6,450

Note 8. Debt

The Company's long-term debt consisted of the following:

	May 31, 2002	November 30, 2001
Fixed-rate unsecured notes payable, bearing	-----	-----

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

interest at 7.92%, in annual principal installments of \$8,333	\$ 41,666	\$ 41,666
Variable-rate industrial development bonds, Payable in 2016 (1.55% at May 31, 2002)	7,200	7,200
Variable-rate industrial development bonds, Payable in 2021 (1.70% at May 31, 2002)	8,500	8,500
Variable-rate unsecured bank revolving credit facilities; payable in 2003 (2.54% at May 31, 2002)	92,424	84,910
Variable-rate unsecured bank loan, Payable in 2004 (18.67% at May 31, 2002)	3,255	3,254
Variable-rate unsecured bank loan, payable in Euros	--	264
	-----	-----
	153,045	145,794
Less Current portion	(100,757)	(8,597)
	-----	-----
	\$ 52,288	\$ 137,197
	=====	=====

Note 9. Segment Information

The Company provides certain information about operating segments in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, the Company has determined that it

8

has four operating segments: Performance Coatings & Finishes, Fiberglass-Composite Pipe, Water Transmission, and Infrastructure Products. Each of these segments has a dedicated management team and is managed separately, primarily because of differences in products. Inter-segment sales were not significant. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Following is information related to each operating segment included in, and in a manner consistent with, internal management reports:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Sales				
Performance Coatings & Finishes	\$ 48,691	\$ 51,799	\$ 86,916	\$ 94,544
Fiberglass-Composite Pipe	19,633	30,450	41,226	54,142
Water Transmission	40,500	33,654	73,879	61,752
Infrastructure Products	29,551	27,962	57,300	55,480
Eliminations	(276)	(195)	(520)	(643)
	-----	-----	-----	-----
Total Sales	\$ 138,099	\$ 143,670	\$ 258,801	\$ 265,275
	=====	=====	=====	=====
Income Before Interest and Income Taxes				
Performance Coatings & Finishes	\$ 2,916	\$ 4,277	\$ 2,216	\$ 4,381
Fiberglass-Composite Pipe	2,981	5,291	5,383	7,532
Water Transmission	7,381	4,329	12,003	7,771
Infrastructure Products	3,620	2,663	6,596	5,750
Corporate & Unallocated	(4,172)	(3,861)	(8,480)	(7,526)
	-----	-----	-----	-----
Total Income Before Interest and Income Taxes	\$ 12,726	\$ 12,699	\$ 17,718	\$ 17,908
	=====	=====	=====	=====
			May 31, 2002	November 30 2001
			-----	-----
Assets				
Performance Coatings & Finishes			\$ 135,661	\$ 133,332
Fiberglass-Composite Pipe			131,284	133,267

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Water Transmission	120,862	123,175
Infrastructure Products	70,971	65,518
Corporate & Unallocated	154,240	168,697
Eliminations	(127,310)	(138,909)
	-----	-----
Total Assets	\$ 485,708	\$ 485,080
	=====	=====

Note 10. Commitments & Contingencies

An action was filed in 1992 in the U.S. District Court for the District of Arizona by the Central Arizona Water Conservation District ("CAWCD") seeking damages against several parties, including the Company and the Company's customer, Peter Kiewit Sons Company ("Kiewit"), in connection with six prestressed concrete pipe siphons furnished and installed in the 1970's as part of the Central Arizona Project ("CAP"), a federal project to bring water from the Colorado River to Arizona. The CAWCD also filed separate actions against the U.S. Bureau of Reclamation ("USBR") in the U.S. Court of Claims and with the Arizona Projects Office of the USBR in connection with the CAP siphons. The CAWCD alleged that the six CAP siphons were defective and that the USBR and the defendants in the U.S. District Court action were liable for damages for the repair or replacement of those siphons. On September 14, 1994, the U.S. District Court granted the Company's motion to dismiss the CAWCD action and entered judgement against the CAWCD and in favor of the Company and its co-defendants. CAWCD filed a notice of appeal with the Ninth Circuit Court of Appeals.

Separately, on September 28, 1995, the Contracting Officer for the USBR issued a final decision claiming for the USBR approximately \$40 million in damages against Kiewit, based in part on the Contracting Officer's finding that the siphons supplied by the Company were defective. That claim amount is considered by the Company to be duplicative of the damages sought by the CAWCD for the repair or replacement of the siphons in its aforementioned action in the U.S. District Court for

9

the District of Arizona. The Contracting Officer's final decision was appealed by Kiewit to the U.S. Department of the Interior Board of Contract Appeals ("IBCA"). The Company is actively cooperating with and assisting Kiewit in the administrative appeal of that final decision before the IBCA. Trial on that appeal commenced in November 2000; however, the proceeding was stayed with the concurrence of the parties pending efforts aimed at a possible settlement of the matter. Settlement efforts involving the USBR, Kiewit, the Company and various insurance carriers are continuing. In the meantime, activity on the IBCA appeal, as well as the aforementioned CAWCD appeal, continues to be suspended.

The Company internally, as well as through independent third-party consultants, has conducted engineering analyses regarding the allegations that the CAP siphons were defective and believes that the siphons were manufactured in accordance with the project specifications and other contract requirements; and, therefore, it is not liable for any claims relating to the siphons, whether by the CAWCD or by the USBR. The Company believes that it has meritorious defenses to these actions and that resultant liability, if any, should not have a material effect on the financial position of the Company or its results of operations.

In addition, certain other claims, suits and complaints that arise in the ordinary course of business, have been filed or are pending against the Company. Management believes that these matters, and the matters discussed above, are either adequately reserved, covered by insurance, or would not have a material effect on the Company's financial position or its results of operations if disposed of unfavorably.

The Company is also subject to federal, state and local laws and regulations concerning the environment and is currently participating in administrative proceedings at several sites under these laws. In the early 1970's, the Company disposed of certain quantities of waste at the Stringfellow Hazardous Waste Site in Riverside County, California, which is one of several priority sites on the Superfund list established by the U.S. Environmental Protection Agency. During 2001 the Company settled the only current action against it in connection with the remediation of that site. The settlement did not have a material impact on the Company's financial position or its results of operations. While the Company finds it difficult to estimate with any certainty the total cost of remediation at the several sites, on the basis of currently available information and reserves provided, the Company believes that the outcome of such environmental regulatory proceedings will not have a material effect on the Company's financial position or its results of operations.

The Company is one of numerous defendants in various pending lawsuits involving 1,588 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits

specifies any dollar amount sought as damages by such individuals or their representatives, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**Ameron International Corporation and Subsidiaries
May 31, 2002**

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2001 Annual Report. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Liquidity and Capital Resources and Results of Operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the

10

basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The Company's significant accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements in the Company's 2001 Annual Report. Management believes the following accounting policies affect the more significant estimates used in preparing the consolidated financial statements.

Revenue for the Performance Coatings & Finishes, Fiberglass-Composite Pipe and Infrastructure Products segments is recognized primarily at the time goods are shipped. Revenue is recognized for the Water Transmission Group primarily under the percentage of completion method or, in some cases, at shipment. Revenue under the percentage of completion method is subject to a greater level of estimation, which affects the timing of revenue, costs and profits. Estimates are reviewed on a consistent basis and are adjusted periodically to reflect current expectations.

The Company expenses environmental clean-up costs related to existing conditions resulting from past or current operations and from which no current or future benefit is anticipated. The Company determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out (FIFO) method. Certain steel inventories are valued using the last-in, first-out (LIFO) method. Reserves are established for excess, obsolete and rework inventories based on estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. Property,

plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally 3 to 40 years.

Investments in joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Reserves are provided where management determines that a portion of the investment or earnings are estimated not to be realizable.

All long-lived assets, including property, plant and equipment, long-term investments, goodwill and other intangible assets are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the estimated future, undiscounted cash flows from the use of an asset are less than its carrying value, a write-down is recorded to reduce the related assets to estimated fair value.

The Company is self insured for losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and historical experience.

Defined benefit pension plans and postretirement health care and life insurance benefits require estimating the cost of benefits to be provided well into the future and attributing that cost to the time period each covered employee works. To record these net assets and obligations, management uses estimates relating to assumed inflation, investment returns, mortality, employee turnover, rate of compensation increases, medical costs and discount rates. Management along with third-party actuaries review all of these assumptions on an ongoing basis to ensure that the most recent information available is being considered.

Management incentive compensation is accrued based on current estimates of the Company's ability to achieve short-term and long-term performance targets.

Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. Quarterly income taxes are estimated based on the mix of income by jurisdiction forecasted for the full fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended May 31, 2002, the Company generated \$0.2 million of cash in operating activities compared to \$8.3 million generated from operations for the same period in 2001. The lower operating cash flow in 2002 was due principally to higher working capital requirements, associated with higher receivables, lower inventories and lower current liabilities, as well as, payments of long-term liabilities associated with employee benefit programs.

Net cash of \$5.8 million was used in investing activities for the six months ended May 31, 2002, compared to \$12.2 million used in the same period in 2001. Cash used in investing activities consisted primarily of capital expenditures for normal replacement and upgrades of machinery and equipment. Cash used in investing activities in 2001 also included capital expenditures for a new concrete pole plant in Alabama. Management estimates that capital expenditures during fiscal 2002 will be between \$15.0 million and \$25.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations and additional borrowings.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Net cash provided by financing activities was \$1.5 million in 2002, compared with \$6.4 million in 2001. Net borrowings of \$3.8 million in 2002 were used to finance operations, for capital expenditures and for payment of common stock dividends of \$2.5 million.

Cash and cash equivalents at May 31, 2002 totaled \$7.3 million, a decrease of \$4.0 million from November 30, 2001. At May 31, 2002 the Company had total debt outstanding of \$154.3 million and approximately \$96.8 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company is currently negotiating with its banks to obtain a new revolving credit facility to replace the Company's principal bank facility, a \$150 million revolving credit facility of which \$80 million was utilized as of May 31, 2002. The Company is able to borrow under the existing facility through April 3, 2003.

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2002. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as loss of customers or significant material price increases. The availability of credit could also affect the Company's ability to fund operations.

The Company's contractual obligations and commercial commitments at May 31, 2002 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$153,045	\$100,757	\$ 28,254	\$ 8,334	\$15,700
Operating Leases	42,587	4,986	7,818	4,430	25,353
Total Contractual Obligations (b)	\$195,632	\$105,743	\$ 36,072	\$12,764	\$41,053

Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Line of Credit (a)	\$ 1,292	\$ 1,292	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	2,975	2,975	--	--	--
Guarantees (d)	4,692	4,692	--	--	--
Total Commercial Commitments (b)	\$ 8,959	\$ 8,959	\$ --	\$ --	\$ --

- (a) Included in long-term debt is \$92,424 outstanding under unsecured bank lines supported by a revolving credit facility, due in April, 2003. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, or standby repurchase obligations.
- (c) Not included are standby letters of credit of \$15,700 supporting industrial development bonds and \$3,255 supporting a bank loan, which are included in long-term debt.
- (d) The Company guarantees bank credit facilities for a joint venture.

RESULTS OF OPERATIONS

Net income totaled \$7.6 million, or \$1.82 per diluted share, on sales of \$138.1 million for the second quarter of 2002, compared to earnings of \$7.1 million, or \$1.78 per diluted share, on sales of \$143.7 million for the same period in 2001. Sales improvements by both the Water Transmission and Infrastructure Products businesses were not sufficient to offset declines by the Performance Coatings & Finishes Group and, to a greater extent, the Fiberglass-Composite Pipe Group. The slight, overall improvement in net income came principally from higher operating

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

margins, higher equity income and lower interest expense.

Net income totaled \$9.3 million, or \$2.25 per diluted share, on sales of \$258.8 million for the six months ended May 31, 2002, compared to earnings of \$8.7 million, or \$2.20 per diluted share, on sales of \$265.3 million for the same period in 2001. Improvements by the Water Transmission Group and the Infrastructure Products Group offset lower results from the Performance Coatings & Finishes Group and the Fiberglass-Composite Pipe Group. The overall improvement in net income came primarily from higher operating margins, higher equity income and lower interest expense.

Sales of the Water Transmission Group increased \$6.8 million in the second quarter and \$12.1 million in the six months ended May 31, 2002, compared to the same periods of 2001. Sales were higher due to the continued demand for water and waste water piping in California and Arizona. Segment income increased \$3.1 million in the second quarter and \$4.2 million in the six months ended May 31, 2002, compared to the same periods of 2001, as a result of higher sales and improved product mix. The outlook for the Water Transmission Group is positive, due to the strong order backlog. During the second quarter, the Water Transmission Group was awarded a \$57 million contract for the fabrication of steel pilings for the San Francisco/Oakland Bay Bridge. Ameron's share of the project will extend through the end of 2003.

Sales of the Company's worldwide Fiberglass-Composite Pipe Group decreased \$10.8 million in the second quarter and \$12.9 million in the six months ended May 31, 2002, compared to the same periods of 2001. Sales decreased because of the continued sluggishness in domestic and European industrial and fuel-handling markets, as well as softening in the worldwide oilfield market. Demand for oilfield piping decreased dramatically during the second quarter because of uncertainty regarding the sustainability of oil prices. Additionally, Ameron's U.S. industrial business completed deliveries of a large water pipeline for a project in California during 2001. Segment income decreased by \$2.3 million in the second quarter and \$2.1 million in the six months ended May 31, 2002, compared to the same periods of 2001, due to lower sales. The near-term outlook for the Fiberglass-Composite Pipe Group remains uncertain; however, increased activity in Asian markets should offset the current slowdown in markets served by Ameron's U.S. and European operations.

Sales of the Performance Coatings & Finishes Group decreased \$3.1 million in the second quarter and \$7.6 million in the six months ended May 31, 2002, compared to the same periods of 2001. Sales of high-performance protective coatings declined in both Europe and the U.S. while sales of light-industrial finishes in the U.K., Australia and New Zealand were flat in the first quarter and higher in the second quarter. Segment income decreased \$1.4 million in the second quarter and \$2.2 million in the six months ended May 31, 2002, compared to the same periods of 2001, as a result of lower sales. The outlook for the Performance Coatings & Finishes Group is dependent on the timing and strength of the economic recovery and improvements in the markets for high performance coatings.

Sales of the Infrastructure Products Group increased \$1.6 million in the second quarter and \$1.8 million in the six months ended May 31, 2002, compared to the same periods of 2001. Segment income increased by \$1.0 million for the second quarter and \$.8 million in the six months ended May 31, 2002, compared to the same periods of 2001 as a result of improved Hawaiian operations. Sales of pole products increased as low interest rates continued to drive the strong U.S. housing market. The outlook for the Infrastructure Products Group appears to be improving due to the pace of military and residential construction in Hawaii.

The Company's gross profit increased \$.8 million for the second quarter and \$1.3 million in the six months ended May 31, 2002, despite reduced sales. Gross profit margins for the Company as a whole improved slightly in both the second quarter and six months ended May 31, 2002, compared to the same periods in 2001 primarily due to improved project and product mix within the Water Transmission and Fiberglass-Composite Pipe Groups and lower raw material prices for both the Fiberglass-Composite Pipe and Performance Coatings & Finishes Groups.

Selling, General and Administrative expenses were slightly higher in the second quarter and six months ended May 31, 2002, compared to the same periods of 2001, primarily due to higher insurance and benefit costs.

13

Interest expense decreased \$1.3 million for the second quarter and \$1.9 million in the six months ended May 31, 2002, compared to the same periods in 2001. The lower interest expense resulted primarily from lower interest rates on the Company's variable-rate debt.

The effective tax rate was 32% in the second quarter and six months ended May 31, 2002, compared to 28% for the same periods in 2001. The higher effective tax rate reflected the anticipated mix of income from domestic operations, foreign operations and joint ventures. Income from certain foreign operations and joint ventures is taxed at rates substantially lower than U.S. statutory tax rates.

Item 3. Quantitative and Qualitative Market Risk Disclosure

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's 2001 Annual Report.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Any of the above statements that refer to the Company's estimated or anticipated future results are forward-looking and reflect the Company's current analysis of existing trends and information. Actual results may differ from current expectations based on a number of factors affecting Ameron's businesses, including competitive conditions and changing market conditions. Matters affecting the economy generally, including the state of economies worldwide, can affect the Company's results. These forward-looking statements represent the Company's judgment only as of the date of this report. Since actual results could differ materially, the reader is cautioned not to rely on these forward-looking statements. Moreover, the Company disclaims any intent or obligation to update these forward looking statements.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is one of numerous defendants in various pending lawsuits involving 1,588 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals or their representatives, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

Item 2. Changes in Securities

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$23.0 million of consolidated retained earnings were not restricted at May 31, 2002.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on March 20, 2002. Represented at the meeting, in person or by proxy, were 3,650,598 shares of common stock (94.3% of the total shares outstanding). Stockholders voted on the following matters at this meeting:

1. Election of Directors

The two nominees named in the Company's proxy statement, Messrs. Foss and Marlen, having received the greatest number of votes cast, were re-elected to serve for another term with each

14

receiving not less than 3,287,248 votes on a cumulative basis.

Other directors whose terms of office continued after the meeting are: Peter K. Barker, J. Michael Hagan, Terry L. Haines, John F. King, Alan L. Ockene and John E. Peppercorn.

2. Proposal to Ratify the Appointment of Auditors

3,542,055 shares (97.0% of the shares represented at the meeting and 91.5% of the shares outstanding) voted in favor of the proposal to ratify the appointment of Deloitte & Touche LLP as independent public accountants of the Company for fiscal year 2002. Of the shares represented at the meeting, 95,048 shares (2.6%) voted against the proposal.

Item 6. Exhibits and Reports on Form 8-K

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

A form 8-K was filed on May 7, 2002 to report, under Item 5, the award of a \$57 million contract for supply of steel pilings for the San Francisco/Oakland Bay Bridge.

15

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ameron International Corporation

Date: June 20, 2002

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

By: /s/ Gary Wagner

Gary Wagner

Senior Vice President, Chief Financial Officer