

AMERON INTERNATIONAL CORP
Form 10-Q
October 08, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2003

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 91101-3638**
(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 No

The number of shares outstanding of Common Stock, \$2.50 par value, was 8,081,624 on August 31, 2003. 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	13
Item 3.	Quantitative and Qualitative Market Risk Disclosure	18
Item 4.	Controls and Procedures	18

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	19
Item 2.	Changes in Securities	19
Item 6.	Exhibits and Reports on Form 8-K	19

INDEX OF EXHIBITS	20
-------------------	----

SIGNATURE PAGE	21
----------------	----

CERTIFICATIONS	22
----------------	----

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 August 31,		Nine Months Ended August 31,	
	2003	2002	2003	2002
Sales	\$ 155,174	\$ 138,813	\$ 433,639	\$ 397,000
Cost of Sales	(112,730)	(102,260)	(318,213)	(295,000)
Gross Profit	42,444	36,553	115,426	102,000
Selling, General and Administrative Expenses	(32,078)	(25,312)	(92,636)	(80,000)
Equity in Earnings of Joint Venture	250	819	89	3,000
Other Income, Net	2,715	3,230	8,680	7,000
Income before Interest and Income Taxes	13,331	15,290	31,559	33,000
Interest Income	17	50	108	0
Interest Expense	(1,838)	(1,726)	(5,232)	(5,000)
Income before Income Taxes	11,510	13,614	26,435	27,000
Provision for Income Taxes	(3,799)	(4,903)	(8,724)	(9,000)
Net Income	\$ 7,711	\$ 8,711	\$ 17,711	\$ 18,000
Net Income per Share (Basic)	\$.97	\$ 1.12	\$ 2.25	\$ 2.00
Net Income per Share (Diluted)	\$.94	\$ 1.06	\$ 2.19	\$ 2.00
Weighted Average Shares (Basic)	7,945,157	7,785,014	7,874,174	7,759,000
Weighted Average Shares (Diluted)	8,194,581	8,229,074	8,103,576	8,279,000
Cash Dividends per Share	\$.20	\$.16	\$.56	\$.50

See accompanying notes to consolidated financial statements.

3

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

	August 31, 2003 (Unaudited)	November 30, 2002
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 21,054	\$ 10,360
Receivables, Less Allowances of \$7,766 in 2003 and \$6,652 in 2002	146,332	131,283
Inventories	84,206	88,020
Deferred Income Taxes	16,631	16,528
Prepaid Expenses and Other Current Assets	11,028	6,671
	-----	-----
Total Current Assets	279,251	252,862
Investments and Advances in Joint Ventures	19,166	18,927
Property, Plant and Equipment, Net	147,398	145,242
Intangible Assets, Net of Accumulated Amortization of \$9,216 in 2003 and \$8,551 in 2002	13,119	13,013
Other Assets	38,046	32,898
	-----	-----
Total Assets	\$ 496,980	\$ 462,942
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ 156	\$ 1,009
Current Portion of Long-Term Debt	8,333	8,333
Trade Payables	42,211	46,295
Accrued Liabilities	54,177	45,994
Income Taxes Payable	4,855	2,026
	-----	-----
Total Current Liabilities	109,732	103,657
Long-Term Debt, Less Current Portion	96,894	102,823
Other Long-Term Liabilities	52,848	44,636
	-----	-----
Total Liabilities	259,474	251,116
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 8,081,624 Shares in 2003 and 3,945,662 in 2002, Net of Treasury Shares	26,854	13,198
Additional Paid-In Capital	14,103	23,950
Unearned Restricted Stock	(1,652)	(2,164)
Retained Earnings	283,696	270,449

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Accumulated Other Comprehensive Loss	(36,972)	(44,948)
Treasury Stock (2,659,810 Shares in 2003 and 1,333,655 in 2002)	(48,523)	(48,659)
	-----	-----
Total Stockholders' Equity	237,506	211,826
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 496,980	\$ 462,942
	=====	=====

See accompanying notes to consolidated financial statements.

4

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

	Nine Months Ended August 31,	
	2003	2002
	-----	-----
Cash Flows from Operating Activities		
Net Income	\$ 17,711	\$ 18,044
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	13,667	13,372
Amortization	233	419
Provision for Deferred Income Taxes	(46)	1,611
Net Earnings and Distributions from Joint Ventures	186	(414)
Gain from Sale of Assets	(2,541)	(70)
Stock Compensation Expense	584	540
Other	371	--
Changes in Operating Assets and Liabilities:		
Receivables	(11,200)	6,976
Inventories	5,248	7,875
Prepaid Expenses and Other Current Assets	(4,231)	(1,373)
Other Assets	(3,341)	(880)
Trade Payables	(5,617)	(4,541)
Accrued Liabilities and Income Taxes Payable	10,407	2,247
Other Long-Term Liabilities	8,085	(7,027)
	-----	-----
Net Cash Provided by Operating Activities	29,516	36,779
	-----	-----
Cash Flows from Investing Activities		
Proceeds from Sale of Assets	3,292	370
Additions to Property, Plant and Equipment	(12,892)	(10,570)
	-----	-----
Net Cash Used in Investing Activities	(9,600)	(10,200)
	-----	-----
Cash Flows from Financing Activities		

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Net Change in Short-Term Borrowings	(1,497)	(3,165)
Issuance of Debt	64,203	785
Repayment of Debt	(70,123)	(22,600)
Debt Issuance Costs	(1,659)	--
Dividends on Common Stock	(4,464)	(3,754)
Issuance of Common Stock	3,737	1,279
Change in Treasury Stock	136	--
	-----	-----
Net Cash Used in Financing Activities	(9,667)	(27,455)
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	445	(83)
	-----	-----
Net Change in Cash and Cash Equivalents	10,694	(959)
Cash and Cash Equivalents at Beginning of Period	10,360	11,315
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 21,054	\$ 10,356
	=====	=====

See accompanying notes to consolidated financial statements.

5

Ameron International Corporation and Subsidiaries Notes to Consolidated Financial Statements (Dollars In Thousands Except Per 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" or the "Registrant") at August 31, 2003, and its consolidated results of operations and cash flows for the three and nine months ended August 31, 2003 and 2002. 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, 2002 ("2002 Annual Report").

Certain prior period balances have been reclassified to conform with the current period presentation.

Note 2. New Accounting Pronouncements

Effective December 1, 2002, the Company adopted Statement of Financial Accounting Standards ("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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

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. Upon adoption of SFAS No. 142, the Company ceased amortizing existing goodwill. The Company performed the prescribed transitional goodwill impairment test with respect to existing goodwill and determined that no impairment existed as of December 1, 2002. The Company's disclosures required under SFAS No. 142 are included in Note 12, herein.

Effective December 1, 2002, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses the obligations and retirement costs associated with the retirement of tangible long-lived assets. The standard 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 adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 144, "Impairment or Disposal of Long-Lived Assets." 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 adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 145, "Rescission of Financial Accounting Standards Board ("FASB") Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." In so doing, SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated, and, if material, classified as an extraordinary item, net of the related income tax effect, unless the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to require that certain lease modifications that have economic effects similar to sale-leaseback transactions are accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed

6

conditions. The adoption of SFAS No. 145 did not have a material impact on the Company's consolidated financial statements.

The Company adopted SFAS No. 146, "Accounting for Exit or Disposal Activities," during the quarter ended February 28, 2003. SFAS No. 146 addresses issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force has set forth in Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company's disclosure of incentive stock compensation plans is included in Note 13, herein. The Company has adopted only the disclosure provisions of SFAS No. 148. The adoption of the disclosure provisions of SFAS No. 148 did not have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. FIN No. 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 specifically identifies certain obligations that are excluded from the provisions related to recognizing a liability at inception; however, these guarantees are subject to the disclosure requirements of FIN No. 45. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's disclosure of guarantees is included in Note 11, herein. The adoption of the recognition and measurement provisions of FIN No. 45 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." This standard clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities (more commonly known as Special Purpose Entities or SPE's). FIN No. 46 requires existing unconsolidated variable interest

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. FIN No. 46 also enhances the disclosure requirements related to variable interest entities. This statement is effective for variable interest entities created or in which an enterprise obtains an interest after January 31, 2003. FIN No. 46 will be effective for the Company beginning September 1, 2003 for all interests in variable interest entities acquired before February 1, 2003. The adoption of FIN No. 46 is not expected to have a material impact on the Company's consolidated financial statements.

Note 3. Inventories

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

	August 31, 2003	November 30, 2002
	-----	-----
Finished Products	\$ 52,045	\$ 52,359
Materials and Supplies	20,722	20,373
Products in Process	11,439	15,288
	-----	-----
	\$ 84,206	\$ 88,020
	=====	=====

7

Note 4. Supplemental Disclosure of Cash Flow Information

	Nine Months Ended August 31,	
	-----	-----
	2003	2002
Interest Paid	\$ 3,497	\$ 4,705
Income Taxes Paid	\$ 5,737	\$ 5,214

Note 5. Joint Ventures

Operating results of TAMCO, an investment which is accounted for under the equity method, were as follows:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	-----	-----	-----	-----
	2003	2002	2003	2002
Net Sales	\$ 45,830	\$ 37,062	\$ 119,912	\$ 97,285
Gross Profit	\$ 2,475	\$ 4,489	\$ 5,087	\$ 14,955
Net Income	\$ 501	\$ 1,638	\$ 179	\$ 6,427

Investments in Ameron Saudi Arabia, Ltd. ("ASAL"), Bondstrand, Ltd. ("BL") and Oasis-Ameron, Ltd. ("OAL") are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures. The Company has consistently reserved amounts not realized from these Saudi Arabian joint ventures.

Earnings and dividends from the Company's joint ventures were as follows:

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2003	2002	2003	2002
Earnings from Joint Ventures				
TAMCO	\$ 250	\$ 819	\$ 89	\$ 3,439
ASAL	--	3,310	2,633	3,310
BL	397	63	2,635	2,263
OAL	1	--	98	--
Amercoat Mexicana	312	--	312	327
Dividends Received from Joint Ventures				
TAMCO	\$ --	\$ 1,100	\$ 275	\$ 3,025
ASAL	--	3,310	2,633	3,310
BL	397	2,263	2,635	2,263
OAL	1	--	98	--
Amercoat Mexicana	312	--	312	327

Earnings from ASAL, BL, OAL, and Amercoat Mexicana are included in other income. The Company sold its interest in Amercoat Mexicana in August 2003.

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. 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 restricted stock, using the treasury stock method. For the three and nine months ended August 31, 2003, options to purchase 21,000 common shares were anti-dilutive. For the three and nine months ended August 31, 2002, options to purchase 21,000 common shares were also anti-dilutive. Following is a reconciliation of the weighted-average number of shares used in the computation of basic and diluted net income per share:

	8		8	
	Three Months Ended August 31,		Nine Months Ended August 31,	
	2003	2002	2003	2002
Basic Average Common Shares Outstanding	7,945,157	7,785,014	7,874,174	7,759,906
Dilutive Effect of Common Stock Equivalents	249,424	444,060	229,402	519,462
Diluted Average Common Shares Outstanding	8,194,581	8,229,074	8,103,576	8,279,368

On March 26, 2003 the Company's Board of Directors declared a two-for-one stock split in the form of a stock dividend of one additional common share for every outstanding common share held by stockholders of record on May 1, 2003, payable May 27, 2003. The weighted-average number of shares shown above and per share information on the consolidated statements of income reflect the Company's shares and earnings and dividends per share on a post-split basis.

Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended August 31,	Nine Months Ended August 31,
--	----------------------------------	---------------------------------

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	2003	2002	2003	2002
Net Income	\$ 7,711	\$ 8,711	\$ 17,711	\$ 18,044
Foreign Currency Translation Adjustment	(2,494)	1,774	7,045	5,448
Comprehensive (Loss) Income from Joint Venture	(246)	218	931	755
Comprehensive Income	\$ 4,971	\$ 10,703	\$ 25,687	\$ 24,247

Note 8. Debt

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

	August 31, 2003	November 30, 2002
Fixed-rate secured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 33,333	\$ 33,333
Fixed-rate secured notes payable, bearing interest at 5.36%, in annual principal installments of \$10,000 beginning in 2005	50,000	--
Variable-rate industrial development bonds, payable in 2016 (.95% at August 31, 2003)	7,200	7,200
Variable-rate industrial development bonds, payable in 2021 (1.10% at August 31, 2003)	8,500	8,500
Variable-rate secured bank revolving credit facilities; payable in 2006 (3.51% at August 31, 2003)	6,194	--
Variable-rate bank revolving credit facilities	--	62,123
Total long-term debt	105,227	111,156
Less current portion	(8,333)	(8,333)
Long-term debt, less current portion	\$ 96,894	\$ 102,823

9

In January 2003, the Company finalized a three-year, \$100,000 revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until January 2006, when all borrowings under the Revolver must be repaid. Also in January 2003, the Company issued \$50,000 of notes payable to an insurance company at a fixed rate of 5.36%. These fixed-rate notes payable amortize \$10,000 per year beginning in November 2005, with a final maturity in November 2009. The Revolver and the 5.36% notes payable replaced a \$150,000 revolving credit facility that was maintained at November 30, 2002. The lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees.

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 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. 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

Nine Months Ended

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	August 31,		August 31,	
	2003	2002	2003	2002
Sales				
Performance Coatings & Finishes	\$ 49,993	\$ 47,409	\$ 140,029	\$ 134,325
Fiberglass-Composite Pipe	30,588	22,705	85,519	63,931
Water Transmission	40,984	34,296	112,005	108,175
Infrastructure Products	33,821	34,582	96,948	91,882
Eliminations	(212)	(179)	(862)	(699)
Total Sales	\$ 155,174	\$ 138,813	\$ 433,639	\$ 397,614
Income (Loss) Before Interest and Income Taxes				
Performance Coatings & Finishes	\$ 2,572	\$ 2,912	\$ 6,180	\$ 5,128
Fiberglass-Composite Pipe	5,124	1,989	16,217	7,372
Water Transmission	3,806	9,285	12,608	21,288
Infrastructure Products	4,280	4,750	10,857	11,346
Corporate & Unallocated	(2,451)	(3,646)	(14,303)	(12,126)
Total Income Before Interest and Income Taxes	\$ 13,331	\$ 15,290	\$ 31,559	\$ 33,008
Assets				
Performance Coatings & Finishes			\$ 154,006	\$ 138,616
Fiberglass-Composite Pipe			148,434	138,712
Water Transmission			111,574	115,078
Infrastructure Products			70,892	68,272
Corporate & Unallocated			151,949	140,233
Eliminations			(139,875)	(137,969)
Total Assets			\$ 496,980	\$ 462,942

Note 10. Commitments & Contingencies

As previously reported, the Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to certain products previously manufactured by the Company, and at this time the Company is not aware of the extent of injuries allegedly suffered by

10

the individuals or the facts supporting the claim that 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. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 31, 2003, the Company was a defendant in asbestos-related cases involving 17,487 claimants, compared to 17,426 claimants as of May 31, 2003. For the quarter ended August 31, 2003, there were new claims involving 123 claimants, dismissals involving 59 claimants, judgments in favor of the Company involving 3 claimants and no settlements. Net costs paid by the Company for the quarter ended August 31, 2003 for litigating asbestos-related claims were less than \$100.

As previously reported, the Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to certain products previously manufactured by the Company, 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 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. Hence, no amounts have been accrued for loss contingencies

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 31, 2003, the Company was a defendant in silica-related cases involving 6,078 claimants, compared to 5,958 claimants as of May 31, 2003. For the quarter ended August 31, 2003, there were new claims involving 201 claimants, dismissals involving 81 claimants, no judgments and no settlements. Net costs paid by the Company for the quarter ended August 31, 2003 for litigating silica-related claims were less than \$200.

In addition to the above, 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 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. 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.

Note 11. Product Warranties and Guarantees

The Company's product warranty accrual reflects management's estimate of probable liability associated with product warranties. Management establishes product warranty accruals based on historical experience and other currently available information.

Changes in the product warranty accrual for the nine months ended August 31, 2003 were as follows:

Balance, Beginning of Period	\$ 4,257
Payments	(1,951)
Change in Liability for Warranties Issued During the Period	2,387
Change in Liability for Preexisting Warranties	-

Balance, End of Period	\$ 4,693
	=====

Note 12. Goodwill and Other Intangible Assets

During the six months ended May 31, 2003, the Company performed a goodwill impairment test and determined that no impairment existed as of December 1, 2002. Changes in the Company's goodwill by business segment were as follows:

Segment	November 30, 2002	Foreign Currency Translation Adjustments	Impairments	August 31, 2003
Performance Coatings & Finishes	\$ 10,701	\$ 328	\$ -	\$ 11,029
Fiberglass-Composite Pipe	1,440	-	-	1,440
Water Transmission	-	-	-	-
Infrastructure Products	201	-	-	201
	-----	-----	-----	-----
Total	\$ 12,342	\$ 328	\$ -	\$ 12,670
	=====	=====	=====	=====

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

The following summarizes the pro forma impact of excluding goodwill amortization from the Company's operating results (per share data are adjusted to reflect the two-for-one stock split completed in May 2003):

	Three Months Ended, August 31,		Nine Months Ended, August 31,	
	2003	2002	2003	2002
Reported Net Income	\$ 7,711	\$ 8,711	\$ 17,711	\$ 18,044
Goodwill Amortization Expense, net of tax	-	41	-	153
Pro Forma Net Income	\$ 7,711	\$ 8,752	\$ 17,711	\$ 18,197
Basic Net Income Per Share:				
As Reported	\$.97	\$ 1.12	\$ 2.25	\$ 2.33
Pro Forma	\$.97	\$ 1.12	\$ 2.25	\$ 2.35
Diluted Net Income Per Share:				
As Reported	\$.94	\$ 1.06	\$ 2.19	\$ 2.18
Pro Forma	\$.94	\$ 1.06	\$ 2.19	\$ 2.20

The Company's intangible assets and related accumulated amortization consisted of the following:

	August 31, 2003		November 30, 2002	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
Trademarks	\$ 2,001	\$ (1,904)	\$ 1,961	\$ (1,800)
Non-Compete Agreements	2,105	(1,752)	2,105	(1,550)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
Total	\$ 6,248	\$ (5,798)	\$ 6,208	\$ (5,530)

All intangible assets are subject to amortization. Amortization expense for the three and nine months ended August 31, 2003 was \$93 and \$233, respectively. At August 31, 2003, estimated future amortization expense was as follows: \$71 for the remaining three months of 2003, \$299 for 2004 and \$80 for 2005.

Note 13. Incentive Stock Compensation Plans

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its various stock option plans. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which was released in December 2002 as an amendment to SFAS No. 123. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 (per share data are adjusted to reflect the two-for-one stock split completed in May 2003):

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended, August 31,		Nine Months Ended, August 31,	
	2003	2002	2003	2002
Reported Net Income	\$ 7,711	\$ 8,711	\$ 17,711	\$ 18,044
Add/(Deduct): Stock-based employee compensation expense/ (credit) included in reported net income, net of tax	(62)	(572)	391	356
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(210)	(231)	(613)	(694)
Pro Forma Net Income	\$ 7,439	\$ 7,908	\$ 17,489	\$ 17,706
Basic Net Income Per Share:				
As Reported	\$.97	\$ 1.12	\$ 2.25	\$ 2.33
Pro Forma	\$.94	\$ 1.02	\$ 2.22	\$ 2.28
Diluted Net Income Per Share:				
As Reported	\$.94	\$ 1.06	\$ 2.19	\$ 2.18
Pro Forma	\$.91	\$.96	\$ 2.16	\$ 2.14

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

**Ameron International Corporation and Subsidiaries
August 31, 2003**

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2002 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 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 following critical accounting policies and estimates affect the preparation of the Company's consolidated financial statements.

The Company's significant accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements in the Company's 2002 Annual Report. Management believes the following accounting policies affect the more significant estimates used in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss. The Company advances funds to certain foreign subsidiaries that are not expected to be repaid in the foreseeable future. Translation adjustments arising from these advances are also included in accumulated other comprehensive loss. Accelerated payment of intercompany advances could impact the components of equity on the Company's consolidated balance sheets but would not be expected to impact consolidated income statements. Gains or losses resulting

from foreign currency transactions are included in other income.

13

Revenue for the Performance Coatings & Finishes, Fiberglass-Composite Pipe and Infrastructure Products segments is recognized when risk of ownership and title pass, primarily at the time goods are shipped, provided that an agreement exists between the customer and the Company, the price is fixed or determinable and collection is reasonably assured. In limited circumstances within the Performance Coatings & Finishes Group, revenue recognition associated with shipment of coatings for marine dry dockings is delayed until product returns are processed. Revenue is recognized for the Water Transmission Group primarily under the percentage-of-completion method, typically based on completed units of production, since products manufactured under enforceable and binding construction contracts typically are designed for specific applications, are not interchangeable between projects, and are not manufactured for stock. In some cases, if products are manufactured for stock or are not related to specific construction contracts, revenue is recognized under the same criteria used by the other three segments. Revenue under the percentage-of-completion method is subject to a greater level of estimation, which affects the timing of revenue recognition, 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 used by the Water Transmission Group are valued using the last-in, first-out (LIFO) method. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. A significant reduction in demand or significant worsening of customer credit quality could materially impact the Company's consolidated financial statements. 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 three 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. Investments in joint ventures over which the Company does not have the ability to exert significant influence over the investee's operating and financing activities are accounted for under the cost method of accounting. The Company's investment in TAMCO is accounted for under the equity method. Investments in Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures. The Company has consistently reserved amounts not realized from these Saudi Arabian joint ventures.

The Company reviews long-lived assets 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 a portion of the 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 historical experience and certain actuarial assumptions followed in the insurance industry. The estimate of self insurance liability includes an estimate of incurred but not reported claims, based on data compiled from historical experience. Significantly different estimates could materially impact the Company's consolidated financial statements.

Defined benefit pension plans and postretirement health care and life insurance benefit plans 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 these assumptions on an ongoing basis. Use of significantly different estimates could materially impact the Company's consolidated financial statements.

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. The Company believes that it has adequately provided for tax-related matters. The Company is subject to examination by taxing authorities in various jurisdictions. Matters raised upon audit may involve substantial amounts and could be material. Management considers it unlikely that resolution of any such matters would have a material adverse effect upon the Company's consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended August 31, 2003, the Company generated \$29.5 million of cash from operating activities compared to \$36.8 million for the same period in 2002. The lower operating cash flow in 2003 was due to a net increase in operating assets partially offset by an increase in operating liabilities. Much of the asset change came from higher receivables due to increased sales and the timing of collections. Operating liabilities increased in part due to the increased pension liability and also to deferred payments associated with the settlement of the Central Arizona Project lawsuits reached in January 2003.

Net cash used in investing activities totaled \$9.6 million for the nine months ended August 31, 2003, compared to \$10.2 million in the same period in 2002. Net cash used in investing activities consisted of proceeds from the sale of assets, including \$3.0 million from the sale of the Company's interest in a joint venture in 2003, offset by capital expenditures which were primarily for normal replacement and upgrades of machinery and equipment. Additionally, a distribution warehouse was purchased in 2003 for \$1.3 million. Management estimates that capital expenditures during fiscal 2003 will be between \$15.0 and \$20.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash used in financing activities was \$9.7 million in 2003, compared to \$27.5 million in 2002. The net cash used in 2003 resulted from the net repayment of debt of \$7.4 million, debt issuance costs of \$1.6 million, \$4.4 million for payment of common stock dividends, and \$3.7 million from the issuance of common stock related to the exercise of stock options.

In January 2003, the Company finalized a three-year, \$100 million revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until January 2006, when all borrowings under the Revolver must be repaid. Also in January 2003, the Company issued \$50 million of notes payable to an insurance company at a fixed rate of 5.36%. These fixed-rate notes payable amortize \$10 million per year beginning in November 2005, with a final maturity in November 2009. The Revolver and the 5.36% notes payable replaced a \$150 million revolving credit facility that was maintained at November 30, 2002.

The lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Company is required to maintain consolidated net worth of \$181.5 million plus 50% of net income and 75% of proceeds from any equity issued after January 24, 2003. The Company's consolidated net worth exceeded the covenant amount by \$56.7 million as of August 31, 2003. The Company is required to maintain a consolidated leverage ratio of consolidated funded indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") of no more than 3 times. As of August 31, 2003 the Company maintained a debt leverage ratio of 1.66 times EBITDA. The Revolver and the notes payable require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. As of August 31, 2003 qualifying tangible assets equaled 1.65 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA, rental expense and cash taxes must be at least 1.5 times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. As of August 31, 2003 the Company maintained a ratio of 2.4 times.

Cash and cash equivalents at August 31, 2003 totaled \$21.1 million, an increase of \$10.7 million from November 30, 2002. At August 31, 2003, the Company had total debt outstanding of \$105.2 million and approximately \$106 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing level and the average borrowing level in the nine-month period ended August 31, 2003 were \$166.6 million and \$111.2 million, respectively.

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 2003. 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 raw material price increases. Management does not believe it likely that business or economic conditions will worsen or that costs will increase sufficiently to impact short-term liquidity.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

The Company's contractual obligations and commercial commitments at August 31, 2003 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$105,227	\$ 8,333	\$ 26,666	\$34,528	\$35,700
Operating Leases	37,028	4,433	6,471	3,953	22,172
Total Contractual Obligations (b)	\$142,255	\$ 12,766	\$ 33,137	\$38,481	\$57,872

Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Lines of Credit (a)	\$ 156	\$ 156	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	1,645	1,645	--	--	--
Total Commercial Commitments (b)	\$ 1,801	\$ 1,801	\$ --	\$ --	\$ --

- (a) Included in long-term debt is \$6,194 outstanding under a revolving credit facility, due in 2006, and bank lines supported by the Revolver. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, guarantees, or standby repurchase obligations.
- (c) Not included are standby letters of credit supporting industrial development bonds that have principal of \$15,700. The principal amount of the industrial development bonds is included in long-term debt.

RESULTS OF OPERATIONS

General

Net income totaled \$7.7 million, or \$.94 per diluted share, on sales of \$155.2 million for the quarter ended August 31, 2003, compared to net income of \$8.7 million, or \$1.06 per diluted share, on sales of \$138.8 million for the same period in 2002. All operating segments, except the Infrastructure Products Group, had higher sales. All operating segments had lower segment income except the Fiberglass-Composite Pipe Group. The decrease in net income came as higher sales and gross profits were unable to fully offset higher selling, general and administrative expenses and lower income from joint ventures.

Net income totaled \$17.7 million, or \$2.19 per diluted share, on sales of \$433.6 million for the nine months ended August 31, 2003, compared to net income of \$18.0 million, or \$2.18 per diluted share, on sales of \$397.6 million for the same period in 2002. All operating segments had higher sales during the first nine months of 2003. Higher segment income from the Performance Coatings & Finishes and Fiberglass-Composite Pipe Groups offset lower segment income from the Water Transmission and Infrastructure Products Groups. The slight decrease in year-to-date net income came primarily from lower income from joint ventures partially offset by higher other income.

Sales

Sales increased by \$16.4 million in the third quarter of 2003, compared to the same period in 2002. While all operating segments improved, except the Infrastructure Products Group, the largest gain came from the Company's Fiberglass-Composite Pipe business. Continuing the trend of the first half of 2003, the Fiberglass-Composite Pipe Group benefited from strong demand in Asia for fiberglass piping for construction of offshore oil and marine vessels.

Sales increased by \$36.0 million for the nine months ended August 31, 2003, compared to the same period in 2002. All segments improved, with the largest gain by the Fiberglass-Composite Pipe Group. The Fiberglass-Composite Pipe Group benefited from strong demand in Asia.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Performance Coatings & Finishes' sales increased by \$2.6 million in the third quarter and \$5.7 million for the nine months ended August 31, 2003, compared to the same periods in 2002. The three-month and nine-month sales increases resulted from appreciation of foreign currencies relative to the U.S. dollar. Sales in local currencies by operations outside the U.S. were relatively flat, while sales in the U.S. were lower. Sales of protective coatings in the U.S. declined due to continued sluggishness in U.S. chemical/industrial and marine markets caused by the general economic slowdown. Future improvements by the group remain dependent on increased demand by chemical/industrial markets in the U.S. and Europe.

Fiberglass-Composite Pipe's sales increased by \$7.9 million in the third quarter and \$21.6 million for the nine months ended August 31, 2003, compared to the same periods in 2002. The three-month and nine-month increases were due primarily to the strength of Asian operations and partly to favorable foreign exchange rates. Year-to-date sales to industrial markets outside of Asia declined, but quarterly sales improved slightly. Overall, the industrial markets in the U.S. and Europe have been depressed due to general economic conditions. Sales of onshore oilfield piping improved for the quarter and nine months as oil prices remained at a relatively high level and oilfield spending increased. The outlook for the Fiberglass-Composite Pipe Group remains positive.

The Water Transmission Group's sales increased by \$6.7 million in the third quarter and \$3.8 million for the nine months ended August 31, 2003, compared to the same periods in 2002. The increases came from sales of fabricated-steel bridge pilings for the San Francisco/Oakland Bay Bridge. Sales of concrete and steel pipe for fresh and waste water applications declined during the same periods due to a cyclical slowdown in the water market in the western U.S. However, in July, Ameron announced that it was awarded the \$21 million South San Joaquin Irrigation District project. Manufacture of water piping for the San Joaquin project commenced in the third quarter, and full production is expected to continue throughout the remainder of 2003. The backlog and timing of various projects support expectations of a significant fourth-quarter improvement by the Water Transmission Group, and the longer-term outlook for Water Transmission remains positive. Revenue is recognized in the Water Transmission Group primarily under the percentage of completion method and is subject to a certain level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted when actual results are expected to significantly differ from those estimates.

Infrastructure Products' sales decreased by \$.8 million in the third quarter and increased by \$5.1 million for the nine months ended August 31, 2003, compared to the same periods in 2002. Sales decreased slightly in the third quarter as sales of steel poles declined due to the lack of steel tubes supplied by an outside vendor. Throughout 2003, both Hawaiian and pole operations continued to benefit from strong housing and commercial construction spending, which was spurred by low interest rates. The outlook for the Infrastructure Products Group remains positive.

Gross Profit

Gross profit in the third quarter was \$42.4 million, or 27.4% of sales, and \$115.4 million, or 26.6% of sales, for the nine months ended August 31, 2003, compared to \$36.6 million, or 26.3% of sales, and \$102.6 million, or 25.8% of sales, respectively, for the same periods in 2002. Gross profit increased due to higher sales and improved margins. Overall margins improved primarily due to a change in product mix as the proportion of higher-margin fiberglass pipe sales increased.

Gross profit and margins of the Performance Coatings & Finishes and the Infrastructure Products Groups remained relatively flat during the third quarter and the nine months ended August 31, 2003, compared with the same periods in 2002. Profit margins of the Water Transmission Group declined during the same periods, primarily due to the change in product mix as sales shifted to lower-margin fabricated steel pilings. More than offsetting the margin decline of the Water Transmission Group, the Fiberglass-Composite Pipe Group's margins improved during the quarter and year-to-date periods, compared to the same periods in 2002. Fiberglass-Composite Pipe's margins improved due to lower raw material costs and improved operating efficiencies associated with cost containment programs and more balanced plant utilization.

Gross profit of the Water Transmission Group fell \$4.6 million during the nine months ended August 31, 2003, compared to the same period in 2002. The decline came approximately \$5.6 million from the change in product mix offset by \$1.0 million higher gross profit from higher sales. Gross profit of the Fiberglass-Composite Pipe Group increased \$12.3 million during the nine months ended August 31, 2003, compared to the same period in 2002. The improvement came approximately \$5.7 million from higher sales, \$2.8 million from lower raw material costs and \$3.8 million from improved plant utilization and efficiencies.

Selling, General and Administration Expenses

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Selling, general and administrative ("SG&A") expenses totaled \$32.1 million, or 20.7% of sales, for the third quarter, and \$92.6 million, or 21.4% of sales, for the nine months ended August 31, 2003, compared to \$25.3 million, or 18.2% of sales, and \$80.7 million, or 20.3% of sales, respectively, for the same periods in 2002.

Compared to the third quarter of 2002, SG&A in the third quarter of 2003 increased approximately \$6.8 million. The increase came \$1.7 million from higher sales, almost \$1.9 million due to higher pension costs, \$.4 million for higher insurance costs and \$2.8 million for increased product development costs and other expenses.

Compared to the nine months ended August 31, 2002, SG&A in 2003 increased \$11.9 million. The increase came \$2.3 million from higher sales, \$5.7 million due to higher pension costs, \$1.3 million for higher insurance costs and \$2.6 million for increased product development costs and other expenses. Included in SG&A was a net recovery of \$.9 million representing amounts agreed to be reimbursed to the Company by its own and a supplier's insurance companies for past legal fees and costs in excess of the negotiated settlement of the Central Arizona Project lawsuits reached in January 2003.

Equity in Earnings of Joint Venture and Other Income

Equity in earnings of joint venture declined \$.6 million for the third quarter and \$2.6 million for the nine months ended August 31, 2003, compared to the same periods of 2002. TAMCO, Ameron's 50%-owned steel mini-mill in California, suffered throughout 2003 from higher energy and scrap costs. TAMCO's profitability is expected to improve in the fourth quarter.

Other income includes earnings from investments accounted for under the cost method, royalties and fees from licensees, foreign currency transaction gains and losses. Other income decreased \$.5 million in the third quarter and increased \$1.0 million for the nine months ended August 31, 2003, compared to the same periods in 2002. The third-quarter decline was due to lower earnings from ASAL, partially offset by a \$2.5 million gain on the sale of Ameron's minority interest in a Mexican coatings venture. Royalties and fees for the third quarter totaled \$.3 million and \$1.4 million for the nine months ended August 31, 2003, compared to \$.4 million and \$1.4 million, respectively, for the same periods in 2002.

Interest

Interest expense totaled \$1.8 million for the third quarter and \$5.2 million for the nine months ended August 31, 2003, compared to \$1.7 million and \$5.8 million, respectively, for the same periods in 2002. The quarterly increase came despite lower borrowing levels because of the higher-interest, fixed-rate notes placed earlier in 2003. The nine-month decrease reflected lower average borrowing levels in 2003.

Provision for Income Taxes

The effective tax rate was 33% for the third quarter and nine months ended August 31, 2003, compared to 36% and 34%, respectively, for the same periods in 2002. The lower effective tax rate reflected the anticipated mix of income from domestic operations, foreign operations and joint ventures for the full year. Income from certain foreign operations and joint ventures is taxed at rates 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 2002 Annual Report.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of August 31, 2003 pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in

timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to August 31, 2003.

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

As previously reported, the Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to certain products previously manufactured by the Company, 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 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. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 31, 2003, the Company was a defendant in asbestos-related cases involving 17,487 claimants, compared to 17,426 claimants as of May 31, 2003. For the quarter ended August 31, 2003, there were new claims involving 123 claimants, dismissals involving 59 claimants, judgments in favor of the Company involving 3 claimants and no settlements. Net costs paid by the Company for the quarter ended August 31, 2003 for litigating asbestos-related claims were less than \$.1 million.

As previously reported, the Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to certain products previously manufactured by the Company, 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 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. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 31, 2003, the Company was a defendant in silica-related cases involving 6,078 claimants, compared to 5,958 claimants as of May 31, 2003. For the quarter ended August 31, 2003, there were new claims involving 201 claimants, dismissals involving 81 claimants, no judgments and no settlements. Net costs paid by the Company for the quarter ended August 31, 2003 for litigating silica-related claims were less than \$.2 million.

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 \$14.8 million of consolidated retained earnings were not restricted at August 31, 2003.

Item 6. Exhibits and Reports on Form 8-K

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

A Form 8-K/A was filed on June 10, 2003 to amend the May 22, 2003 report to announce the change in independent auditors from Deloitte & Touche LLP to PricewaterhouseCoopers LLP.

A Form 8-K was filed on June 26, 2003 to report the Company's financial results for the second quarter ended May 31, 2003, as reported in a press release dated June 26, 2003.

A Form 8-K was filed on July 23, 2003 to report the award of a \$21 million contract for supply of concrete-cylinder and welded-steel pipe for the South San Joaquin Irrigation District.

19

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002

(32.1) Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*

(32.2) Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

20

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.

Corporation

Ameron International

October 7, 2003

Date:

By: /s/ Gary Wagner

Gary Wagner

Senior Vice President, Chief Financial Officer

RULE 13a-14(a) CERTIFICATION INACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James S. Marlen, Chairman of the Board, President and Chief Executive Officer of Ameron International Corporation (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

October 7, 2003

/s/ James S. Marlen

James S. Marlen
Chairman of the Board, President & Chief Executive Officer

22

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION IN ACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary Wagner, Senior Vice President and Chief Financial Officer of Ameron International Corporation (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

October 7, 2003

/s/ Gary Wagner

Gary Wagner
Senior Vice President, Chief Financial Officer

23

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report on Form 10-Q of Ameron International Corporation (the "Company") for the fiscal quarter ended August 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Marlen, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

* A signed original of this written statement required by Section 906 has been provided to Ameron International Corporation and will be retained by Ameron International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

In connection with the Quarterly Report on Form 10-Q of Ameron International Corporation (the "Company") for the fiscal quarter ended August 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary Wagner, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

* A signed original of this written statement required by Section 906 has been provided to Ameron International Corporation and will be retained by Ameron International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

