

AZZ INC  
Form 10-Q  
September 29, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended August 31, 2006

OR

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

Commission file number 1-12777

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**AZZ incorporated**

(Exact name of registrant as specified in its charter)

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**TEXAS**  
(State or other jurisdiction of  
incorporation of organization)

**75-0948250**  
(I.R.S. Employer  
Identification No.)

Suite 200, 1300 South University Drive, Fort Worth, Texas  
(Address of principal executive offices)

**76107**  
(Zip Code)

**(817) 810-0095**

Registrant's telephone number, including area code:

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NONE

(Former name, former address and former fiscal year, if changed since last report)

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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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Common Stock, \$1.00 Par Value  
Class**

**Outstanding at August 31, 2006 5,811,309  
Number of Shares**

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## PART I. FINANCIAL INFORMATION

Item I. *Financial Statements*

AZZ incorporated

## CONSOLIDATED BALANCE SHEET

|  | 08/31/06<br>(UNAUDITED) | 02/28/06       |
|--|-------------------------|----------------|
| <b>ASSETS</b>  |                         |                |
| CURRENT ASSETS   |                         |                |
| CASH AND CASH EQUIVALENTS  | \$ 2,782,467            | \$ 1,258,945   |
| ACCOUNTS RECEIVABLE (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS)   | 33,811,523              | 32,007,273     |
| INVENTORIES  |                         |                |
| RAW MATERIAL   | 24,735,198              | 14,796,120     |
| WORK-IN-PROCESS  | 8,841,545               | 7,843,777      |
| FINISHED GOODS   | 1,981,384               | 1,497,319      |
| COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS                          | 4,769,713               | 2,499,200      |
| DEFERRED INCOME TAXES  | 2,854,661               | 2,093,119      |
| PREPAID EXPENSES AND OTHER   | 730,401                 | 1,455,217      |
| TOTAL CURRENT ASSETS   | 80,506,892              | 63,450,970     |
| PROPERTY, PLANT AND EQUIPMENT, NET   | 36,783,317              | 35,697,306     |
| GOODWILL, NET OF ACCUMULATED AMORTIZATION  | 40,962,104              | 40,962,104     |
| OTHER ASSETS, NET OF ACCUMULATED AMORTIZATION  | 682,772                 | 915,791        |
|  | \$ 158,935,085          | \$ 141,026,171 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                         |                |
| CURRENT LIABILITIES:   |                         |                |
| ACCOUNTS PAYABLE   | \$ 22,606,520           | \$ 15,840,980  |
| INCOME TAX PAYABLE   | 750,478                 | 862,472        |
| ACCRUED SALARIES AND WAGES   | 3,470,776               | 3,620,099      |
| OTHER ACCRUED LIABILITIES  | 8,401,563               | 5,271,731      |
| CUSTOMER ADVANCE PAYMENT   | 3,464,570               | 2,039,386      |
| BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS                          | 2,599,720               | 2,398,840      |
| LONG-TERM DEBT DUE WITHIN ONE YEAR   |                         | 5,500,000      |
| TOTAL CURRENT LIABILITIES  | 41,293,627              | 35,533,508     |
| LONG-TERM DEBT DUE AFTER ONE YEAR  | 15,500,000              | 14,375,000     |
| DEFERRED INCOME TAXES  | 3,711,737               | 3,849,022      |
| SHAREHOLDERS' EQUITY:  |                         |                |
| COMMON STOCK, \$1 PAR VALUE SHARES AUTHORIZED-25,000,000 SHARES ISSUED 6,304,580                     | 6,304,580               | 6,304,580      |
| CAPITAL IN EXCESS OF PAR VALUE   | 17,004,412              | 15,912,606     |
| CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)   | 42,931                  | 44,226         |
| RETAINED EARNINGS  | 79,662,405              | 70,257,305     |
| LESS COMMON STOCK HELD IN TREASURY, AT COST<br>(493,271 SHARES AT AUGUST 31, 2006 AND 564,750 SHARES |                         |                |

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|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| AT FEBRUARY 28, 2006)            | (4,584,607)       | (5,250,076)       |
| <b>TOTAL SHAREHOLDERS EQUITY</b> | <b>98,429,721</b> | <b>87,268,641</b> |
|                                  | \$ 158,935,085    | \$ 141,026,171    |

See Accompanying Notes to Consolidated Financial Statements

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## PART I. FINANCIAL INFORMATION

Item I. *Financial Statements*

AZZ incorporated

## CONSOLIDATED INCOME STATEMENT

|  | THREE MONTHS ENDED     |                        | SIX MONTHS ENDED       |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | 8/31/06<br>(UNAUDITED) | 8/31/05<br>(UNAUDITED) | 8/31/06<br>(UNAUDITED) | 8/31/05<br>(UNAUDITED) |
| NET SALES  | \$ 62,881,570          | \$ 47,846,903          | \$ 115,334,665         | \$ 92,585,921          |
| COSTS AND EXPENSES   |                        |                        |                        |                        |
| COST OF SALES  | 45,850,330             | 39,693,997             | 84,558,114             | 75,427,455             |
| SELLING, GENERAL AND ADMINISTRATIVE  | 8,524,044              | 5,427,078              | 15,801,912             | 10,628,156             |
| INTEREST EXPENSE   | 278,087                | 452,489                | 665,807                | 893,168                |
| NET (GAIN) LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT                   | 6,264                  | 1,434                  | (437,039)              | 59,731                 |
| OTHER (INCOME)   | (79,720)               | (61,770)               | (268,463)              | (126,763)              |
| OTHER EXPENSE  |                        | 128,826                |                        | 59,372                 |
|  | 54,579,005             | 45,642,054             | 100,320,331            | 86,941,119             |
| INCOME BEFORE INCOME TAXES AND ACCOUNTING CHANGE                           | 8,302,565              | 2,204,849              | 15,014,334             | 5,644,802              |
| INCOME TAX EXPENSE   | 3,023,591              | 837,300                | 5,523,891              | 2,145,000              |
| INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES        | \$ 5,278,974           | \$ 1,367,549           | \$ 9,490,443           | \$ 3,499,802           |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAX)           |                        |                        | 85,344                 |                        |
| NET INCOME   | \$ 5,278,974           | \$ 1,367,549           | \$ 9,405,099           | \$ 3,499,802           |
| EARNINGS PER COMMON SHARE  |                        |                        |                        |                        |
| BASIC EARNINGS PER SHARE-BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE   | \$ 0.91                | \$ 0.25                | \$ 1.64                | \$ 0.63                |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                        | \$                     | \$                     | \$ 0.01                | \$                     |
| BASIC EARNINGS PER SHARE-AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE    | \$ 0.91                | \$ 0.25                | \$ 1.63                | \$ 0.63                |
| DILUTED EARNINGS PER SHARE-BEFORE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | \$ 0.90                | \$ 0.24                | \$ 1.62                | \$ 0.63                |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                        | \$                     | \$                     | \$ 0.02                | \$                     |
| DILUTED EARNINGS PER SHARE-AFTER EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE  | \$ 0.90                | \$ 0.24                | \$ 1.60                | \$ 0.63                |

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## PART I. FINANCIAL INFORMATION

Item I. *Financial Statements*

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## CONSOLIDATED STATEMENTS OF CASH FLOW

|  | SIX MONTHS ENDING  |                    |
|--|--------------------|--------------------|
|  | 8/31/06            | 8/31/05            |
|  | (Unaudited)        | (Unaudited)        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                    |                    |
| NET INCOME   | \$ 9,405,099       | \$ 3,499,802       |
| <b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                    |                    |
| PROVISION FOR DOUBTFUL ACCOUNTS  | 159,150            | (606,274)          |
| AMORTIZATION AND DEPRECIATION  | 3,078,988          | 2,826,247          |
| DEFERRED INCOME TAX BENEFIT  | (898,130)          | (31,587)           |
| NET (GAIN) LOSS ON SALE OR INSURANCE SETTLEMENT OF PROPERTY, PLANT & EQUIPMENT           | (437,039)          | 59,731             |
| NON-CASH INTEREST EXPENSE  | 149,051            | 88,910             |
| NON-CASH COMPENSATION EXPENSE  | 543,183            | 141,200            |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                      | 85,344             |                    |
| <b>EFFECTS OF CHANGES IN ASSETS &amp; LIABILITIES:</b>                                   |                    |                    |
| ACCOUNTS RECEIVABLE  | (1,963,400)        | (3,649,353)        |
| INVENTORIES  | (11,420,911)       | (1,273,357)        |
| PREPAID EXPENSES AND OTHER   | 724,816            | 235,156            |
| OTHER ASSETS   | 57,858             | (5,759)            |
| NET CHANGE IN BILLINGS RELATED TO COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS  | (2,069,633)        | 1,589,349          |
| ACCOUNTS PAYABLE   | 6,765,540          | 3,092,432          |
| OTHER ACCRUED LIABILITIES AND INCOME TAXES   | 4,287,453          | 9,358              |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>8,467,369</b>   | <b>5,975,855</b>   |
| <b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>   |                    |                    |
| PROCEEDS FROM SALE OR INSURANCE SETTLEMENT OF PROPERTY, PLANT, AND EQUIPMENT             | 454,403            | 24,701             |
| PURCHASE OF PROPERTY, PLANT AND EQUIPMENT  | (4,096,456)        | (3,090,300)        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(3,642,053)</b> | <b>(3,065,599)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                    |                    |
| PROCEEDS FROM EXERCISE OF STOCK OPTIONS  | 1,073,206          | 1,072,214          |
| PROCEEDS FROM REVOLVING LOAN   | 15,640,482         | 9,000,000          |
| PAYMENTS ON LONG TERM DEBT   | (20,015,482)       | (11,750,000)       |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>                               | <b>(3,301,794)</b> | <b>(1,677,786)</b> |
| <b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>                            | <b>1,523,522</b>   | <b>1,232,470</b>   |
| <b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                | <b>1,258,945</b>   | <b>516,828</b>     |

|  |              |              |
|--|--------------|--------------|
| CASH & CASH EQUIVALENTS AT END OF PERIOD | \$ 2,782,467 | \$ 1,749,298 |
|--|--------------|--------------|

See Accompanying Notes to Consolidated Financial Statements



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1. These interim unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC rules and regulations referred to above. Accordingly, these financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2006 included in the Company's Annual Report on Form 10-K covering such period. For purposes of this report AZZ, the Company, we, our, us or similar references means AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for calendar year in which it ends. For example, the fiscal year that ends February 28, 2006 is referred to as fiscal 2006.

2. In the opinion of Management of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of August 31, 2006, and the results of its operations for the three-month and six-month periods ended August 31, 2006 and 2005, and cash flows for the six-month period ended August 31, 2006 and 2005.
3. Earnings per share is based on the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of equity instruments.

The following table sets forth the computation of basic and diluted earnings per share:

|   | Three months ended                             |           | Six months ended |           |
|---|--|-----------|------------------|-----------|
|   | August 31,                                     |           | August 31,       |           |
|   | 2006   | 2005      | 2006             | 2005      |
|   | (Unaudited)                                    |           |                  |           |
|   | (In thousands except share and per share data) |           |                  |           |
| <b>Numerator:</b>   |  |           |                  |           |
| Income before cumulative effect of changes in accounting principles       | \$ 5,279                                       | \$ 1,368  | \$ 9,490         | \$ 3,500  |
| Cumulative effect of accounting change                                    |  |           | (85)             |           |
| Net income for basic and diluted earnings per common share                | \$ 5,279                                       | \$ 1,368  | \$ 9,405         | \$ 3,500  |
| <b>Denominator:</b>   |  |           |                  |           |
| Denominator for basic earnings per common share - weighted average shares | 5,797,867                                      | 5,535,380 | 5,781,164        | 5,521,380 |
| Effect of dilutive securities:  |  |           |                  |           |
| Employee and Director stock options                                       | 95,290   | 74,381    | 83,843           | 67,750    |
| Denominator for diluted earnings per common share                         | 5,893,157                                      | 5,609,761 | 5,865,007        | 5,589,130 |

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Earnings per share basic and diluted:

Before cumulative effect of change in accounting principle

|                                   |    |     |    |     |    |      |    |     |
|-----------------------------------|----|-----|----|-----|----|------|----|-----|
| Basic earnings per common share   | \$ | .91 | \$ | .25 | \$ | 1.64 | \$ | .63 |
| Diluted earnings per common share | \$ | .90 | \$ | .24 | \$ | 1.62 | \$ | .63 |

After cumulative effect of change in accounting principle

|                                   |    |     |    |     |    |      |    |     |
|-----------------------------------|----|-----|----|-----|----|------|----|-----|
| Basic earnings per common share   | \$ | .91 | \$ | .25 | \$ | 1.63 | \$ | .63 |
| Diluted earnings per common share | \$ | .90 | \$ | .24 | \$ | 1.60 | \$ | .63 |

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4. Total comprehensive income for the quarter ended August 31, 2006, was \$5,271,819 consisting of net income of \$5,278,974 and net changes in accumulated other comprehensive income of (\$7,155). For the six-month period ended August 31, 2006, total comprehensive income was \$9,403,804 consisting of net income of \$9,405,099 and net changes in accumulated other comprehensive income of (\$1,295). Changes in other comprehensive income result from changes in fair value of the Company's cash flow hedges.

Total comprehensive income for the quarter ended August 31, 2005, was \$1,420,874 consisting of net income of \$1,367,549 and net changes in accumulated other comprehensive income of \$53,325. For the six-month period ended August 31, 2005, total comprehensive income was \$3,491,965 consisting of net income of \$3,499,802 and net changes in accumulated other comprehensive income of (\$7,837).

5. Stock-based compensation

Prior to March 1, 2006, we accounted for stock options granted to our employees and directors under the recognition and measurement provisions of APB Opinion 25, Accounting for Stock Issued to Employees and related Interpretations, as permitted by FASB statement No. 123, Accounting for Stock-Based Compensation. For our stock options, no stock based compensation expense was recognized in our financial statements prior to March 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock at the date of grant. Effective March 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, Share-Based Payment, using the modified prospective transition method. Under this method, compensation cost recognized in the first six months of fiscal 2007 includes compensation cost of \$74,800 for share based payments granted prior to, but not yet vested as of, February 28, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123. As of August 31, 2006, we had \$76,500 of unrecognized compensation cost related to unvested options.

A summary of the Company's stock option activity and related information is as follows:

|                                  | Options  | Weighted<br>Average<br>Exercise Price |
|----------------------------------|----------|---------------------------------------|
| Outstanding at February 28, 2006 | 377,388  | \$ 15.81                              |
| Granted                          |          |                                       |
| Exercised                        | (52,480) | 16.71                                 |
| Forfeited                        | 0        | 0                                     |
| Outstanding at August 31, 2006   | 324,908  | \$ 15.67                              |
| Exercisable at August 31, 2006   | 290,991  | \$ 16.38                              |

The following table summarizes additional information about stock options outstanding at August 31, 2006.

| Range of<br>Exercise Prices | Total<br>Shares | Weighted<br>Average<br>Remaining<br>Life | Weighted<br>Average<br>Exercise<br>Price | Shares<br>Currently<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
|-----------------------------|-----------------|--|--|------------------------------------|--|
| \$8.43- \$13.10             | 143,430         | 5.6                                      | \$ 10.01                                 | 109,513                            | \$ 10.15                                 |
| \$15.40 - \$19.80           | 100,558         | 4.1                                      | \$ 16.83                                 | 100,558                            | \$ 16.83                                 |
| \$24.25                     | 80,920          | 4.8                                      | \$ 24.25                                 | 80,920                             | \$ 24.25                                 |
| \$8.43- \$24.25             | 324,908         | 5.0                                      | \$ 15.67                                 | 290,991                            | \$ 16.38                                 |



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We also began granting stock appreciation rights, or SARs, in the first quarter of fiscal 2005 as part of our stock-based compensation plans. The SARs granted in fiscal 2005 and fiscal 2006 were to be settled in cash. Prior to March 1, 2006, we accounted for these SARs grants under the recognition and measurement provisions of APB Opinion No. 25, which required expense to be recognized equal to the amount by which the quoted market value exceeded the original grant price on a mark-to-market basis. Therefore, we recognized \$757,000 of compensation expense prior to February 28, 2006. On March 1, 2006, as required under the provisions of Statement 123R, those SARs granted prior to, but not yet vested as of, February 28, 2006, were recorded at their fair value estimated in accordance of 123R, and a cumulative effect of change in accounting principle was recorded in the amount of \$85,300 net of tax. Additional compensation expense for these SARs in the amount of \$1.3 million was recorded in the first six months of fiscal 2007 based on their fair value in accordance with 123R.

As a result of adopting Statement No. 123R on March 1, 2006, our income before taxes and net income for the first six months are \$174,000 and \$110,000 lower, respectively, than if we had continued to account for share-based compensation under Opinion No. 25.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement No. 123R to options and SARs granted under our stock-based compensation plans in all periods presented. For the purpose of this pro forma disclosure, the value is estimated using a Black-Scholes option-pricing formula and amortized to expense over the option's vesting periods.

|   | <b>Three Months<br/>Ended</b>                  | <b>Six Months<br/>Ended</b> |
|---|--|-----------------------------|
|   | <b>August 31, 2005</b>                         | <b>August 31, 2005</b>      |
|   | <b>(Unaudited)</b>                             |                             |
|   | <b>(In thousands except per share amounts)</b> |                             |
| Reported net income                               | \$ 1,368                                       | \$ 3,500                    |
| Recognized Compensation, net of tax               | 288  | 288                         |
| Compensation expense per SFAS No.123R, net of tax | (350)  | (528)                       |
| <br>Pro forma net income for SFAS No.123R         | <br>\$ 1,306                                   | <br>\$ 3,260                |
| <br>Reported earnings per common share:           |  |                             |
| Basic   | \$ .25   | \$ .63                      |
| Diluted   | \$ .24   | \$ .63                      |
| <br>Compensation expense per SFAS No.123R:        |  |                             |
| Basic   | \$ (.01)                                       | \$ (.04)                    |
| Diluted   | \$ (.01)                                       | \$ (.05)                    |
| <br>Pro forma earnings per share:                 |  |                             |
| Basic   | \$ .24   | \$ .59                      |
| Diluted   | \$ .23   | \$ .58                      |

On June 1, 2006, we granted 117,080 SARs to be settled in stock. The weighted average fair value of SARs granted on June 1, 2006 was determined to be \$5.53 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 27.81% and expected life of 3 years. Compensation expense related to the fiscal 2007 grant was \$316,000 for the six month period ended August 31, 2006. As of August 31, 2006 we had unrecognized cost of \$367,000 related to the 2006 SARs grants.

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6. We have two operating segments as defined on page 39 of the Company's Annual Report on Form 10-K for the year ended February 28, 2006. Information regarding operations and assets by segment is as follows:

|  | Three Months Ended<br>August 31, |            | Six Months Ended<br>August 31, |            |
|--|----------------------------------|------------|--------------------------------|------------|
|  | 2006                             | 2005       | 2006                           | 2005       |
|  | (Unaudited)                      |            |                                |            |
|  | (\$ In thousands)                |            |                                |            |
| <b>Net Sales:</b>  |                                  |            |                                |            |
| Electrical and Industrial Products                       | \$ 36,520                        | \$ 32,250  | \$ 68,026                      | \$ 61,038  |
| Galvanizing Services                                     | 26,362                           | 15,597     | 47,309                         | 31,548     |
|  | \$ 62,882                        | \$ 47,847  | \$ 115,335                     | \$ 92,586  |
| <b>Operating Income (a):</b>                             |                                  |            |                                |            |
| Electrical and Industrial Products                       | \$ 5,148                         | \$ 2,276   | \$ 9,228                       | \$ 4,366   |
| Galvanizing Services                                     | 8,515                            | 2,653      | 15,020                         | 6,395      |
|  | \$ 13,663                        | \$ 4,929   | \$ 24,248                      | \$ 10,761  |
| <b>General Corporate Expense (b)</b>                     | \$ 5,061                         | \$ 2,243   | \$ 8,531                       | \$ 4,169   |
| Interest Expense   | 278                              | 452        | 666                            | 893        |
| Other (Income) Expense, Net (c)                          | 21                               | 29         | 37                             | 54         |
|  | \$ 5,360                         | \$ 2,724   | \$ 9,234                       | \$ 5,116   |
| <b>Income Before Income Taxes and Accounting Changes</b> | \$ 8,303                         | \$ 2,205   | \$ 15,014                      | \$ 5,645   |
| <b>Total Assets:</b>                                     |                                  |            |                                |            |
| Electrical and Industrial Products                       | \$ 90,146                        | \$ 81,565  | \$ 90,146                      | \$ 81,565  |
| Galvanizing Services                                     | 60,669                           | 46,294     | 60,669                         | 46,294     |
| Corporate  | 8,120                            | 6,534      | 8,120                          | 6,534      |
|  | \$ 158,935                       | \$ 134,393 | \$ 158,935                     | \$ 134,393 |

- (a) Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other income and expense items that are specifically identifiable to a segment.
- (b) General Corporate Expense consists of selling, general and administrative expenses that are not specifically identifiable to a segment.
- (c) Other (income) expense, net includes gains and losses on sale of property, plant and equipment and other (income) expenses not specifically identifiable to a segment.

7. Warranty Reserves

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and adjustments are made accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following shows changes in the warranty reserves since the end of fiscal 2005:

**Warranty  
Reserve  
(Unaudited)  
(\$ In thousands)**

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|                              |    |         |
|------------------------------|----|---------|
| Balance at February 29, 2005 | \$ | 1,005   |
| Warranty costs incurred      |    | (1,050) |
| Additions charged to income  |    | 1,147   |
| Balance at February 28, 2006 | \$ | 1,102   |
| Warranty costs incurred      |    | (477)   |
| Additions charged to income  |    | 641     |
| Balance at August 31, 2006   | \$ | 1,266   |

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### **8. Credit Agreement**

On May 25, 2006, we entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement"), which replaced our Amended and Restated Revolving and Term Credit Agreement dated as of November 1, 2001.

The Credit Agreement provides for a \$50 million revolving line of credit with one lender, Bank of America, N.A., maturing on May 25, 2011. This is an unsecured revolving credit facility to be used to refinance current outstanding borrowings, provide for working capital needs, capital improvements, future acquisitions, and letter of credit needs. At August 31, 2006, we had \$15.5 million borrowed against the revolving credit facility and letters of credit outstanding in the amount of \$8.9 million, which left approximately \$25.6 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants consisting of a) Minimum Consolidated Net Worth - maintain on a consolidated basis net worth equal to at least the sum of \$69.8 million, representing 80% of net worth at February 28, 2006 plus 75% of future net income, b) Maximum Leverage Ratio- maintain on a consolidated basis a Leverage Ratio not to exceed 3.0:1.0, c) Fixed Charge Coverage Ratio- maintain on a consolidated basis a Fixed Charge Coverage Ratio of at least 1.5:1.0 and d) Capital Expenditures- not to make Capital Expenditures on a consolidated basis in an amount in excess of \$10 million during any fiscal year.

The Credit Agreement provides for an applicable margin ranging from .75% to 1.25% over the Eurodollar Rate and Commitment Fees ranging from .175% to .25% depending on our Leverage Ratio (as defined in the Credit Agreement). The applicable margin was .75% at August 31, 2006. The variable interest rate including the applicable margin was 6.18% as of August 31, 2006.

### **9. Recent Accounting Pronouncements**

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs." This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted this FASB on March 1, 2006 with no impact from the adoption.

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaced APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the



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statement) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that do not include specific transition provisions. In addition, SFAS No. 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of errors. The statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes : an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies Statement 109, Accounting for Income Taxes ; to indicate the criteria that an individual tax position would have to meet for some or all of the benefit of that position to be recognized in an entity 's financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the requirements under FIN 48 and the effect, if any, that the adoption of FIN 48 will have on our consolidated financial statements, statement of cash flows or earnings per share.

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

**FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally identified by the use of words such as anticipate, expect, estimate, intend, should, may, believe, and terms with similar meanings. Although we believe that the current and expectations reflected in those forward-looking statements are reasonable, those views and expectations, and the related statements, are inherently subject to risks, uncertainties, and other factors, many of which are not under our control. Those risks, uncertainties, and other factors could cause the actual results to differ materially from these in the forward-looking statements. Those risks, uncertainties, and factors include, but are not limited to: the level of customer demand for and response to products and services offered by the Company, including demand by the power generation markets, electrical transmission and distribution markets, the general industrial market, and the hot dip galvanizing markets; raw material and utility costs, including cost of zinc and natural gas which are used in the hot dip galvanizing process; changes in economic conditions of the various markets we serve, foreign and domestic; customer requested delays of shipments; acquisition opportunities, adequacy of financing, our ability to integrate our new management information system and availability of experienced management employees to implement our growth strategy. We expressly disclaim any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in our views or expectations. We can give no assurances that such forward-looking statements will prove to be correct.

The following discussion should be read in conjunction with management 's discussion and analysis contained in our 2006 Annual Report on Form 10-K, as well as with the consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

**RESULTS OF OPERATIONS**

We have two operating segments as defined on page 11 of our Annual Report on Form 10-K for the fiscal year-ended February 28, 2006. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue by segment and segment operating income to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 6 to our quarterly consolidated financial statements.

**Table of Contents***Revenues*

Our backlog was \$98.7 million as of August 31, 2006, as compared to \$92.1 million at May 31, 2006. Backlog improved 29% from the \$76.6 million reported as of August 31, 2005. The increase in incoming orders during the second quarter of fiscal 2007 over the same quarter in fiscal 2006 was primarily due to strong international bookings in the high voltage transmission market, utility distribution, power generation, and the domestic petroleum and industrial markets. It appears that the finalization of the energy legislation is having a positive impact on release and announcement of projects. Orders included in the backlog are represented by contracts and purchase orders that management believes to be firm. The following table reflects our bookings and shipments on a quarterly basis through the period ended August 31, 2006, as compared to the same periods in fiscal 2006.

*Backlog Table*

|                    | Period Ending |           | Period Ending |           |
|--------------------|---------------|-----------|---------------|-----------|
| Backlog            | 2/28/06       | \$ 73,765 | 2/28/05       | \$ 64,769 |
| Bookings           |               | 70,782    |               | 44,980    |
| Shipments          |               | 52,543    |               | 44,739    |
| Backlog            | 5/31/06       | \$ 92,094 | 5/31/05       | \$ 65,010 |
| Book to Ship Ratio |               | 1.35      |               | 1.01      |
| Bookings           |               | 69,450    |               | 59,412    |
| Shipments          |               | 62,882    |               | 47,847    |
| Backlog            | 8/31/06       | \$ 98,662 | 8/31/05       | \$ 76,575 |
| Book to Ship Ratio |               | 1.10      |               | 1.24      |

The following table reflects the breakdown of revenue by segment:

|                                    | Three Months Ended    |           | Six Months Ended |           |
|------------------------------------|-----------------------|-----------|------------------|-----------|
|                                    | 8/31/2006             | 8/31/2005 | 8/31/2006        | 8/31/2005 |
|                                    | <i>(In thousands)</i> |           |                  |           |
| Revenue:                           |                       |           |                  |           |
| Electrical and Industrial Products | \$ 36,520             | \$ 32,250 | \$ 68,026        | \$ 61,038 |
| Galvanizing Services               | 26,362                | 15,597    | 47,309           | 31,548    |
| Total Revenue                      | \$ 62,882             | \$ 47,847 | \$ 115,335       | \$ 92,586 |

For the three and six-month periods ended August 31, 2006, consolidated net revenues increased 31% and 25%, respectively, as compared to the same periods in fiscal 2006, to \$62.9 million for the three-month period and \$115.3 million for the six-month period. For the quarter ended August 31, 2006, the Electrical and Industrial Segment contributed 58% of the Company's revenues and the Galvanizing Services Segment accounted for the remaining 42% of the combined revenues. For the six-month period ended August 31, 2006, the Electrical and Industrial Products Segment contributed 59% of the Company's revenues, while the Galvanizing Services Segment accounted for the remaining 41%.

Revenues for the Electrical and Industrial Products Segment increased \$4.3 million or 13% for the three-month period ended August 31, 2006, and increased \$7 million or 11% for the six-month period ended August 31, 2006, as compared to the same periods in fiscal 2006. The increased revenues were generated from continued strong market demand, primarily from our high voltage transmission and petroleum markets, and improved market conditions from the power generation market, which has been stagnant for several years.

Revenues in the Galvanizing Services Segment increased \$10.8 million or 69% for the three-month period ended August 31, 2006, as compared to the same period in fiscal 2006 and increased \$15.8 million or 50% for the six-month period ended August 31, 2006, as compared to the same period in fiscal 2006. Volume for the three and six-month periods ending August 31, 2006, increased 17% and 11%, respectively, as compared to the same periods in fiscal 2006, while price increased 53% and 39% for the three and six

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months, respectively, for the comparable periods. The increase in selling price was the result of price increases that were implemented to offset the rising commodity cost of zinc. Historically, revenues for this segment have followed closely the condition of the industrial sector of the general economy.

*Segment Operating Income*

The following table reflects the breakdown of total operating income by segment:

|                                    | Three Months Ended    |           | Six Months Ended |           |
|------------------------------------|-----------------------|-----------|------------------|-----------|
|                                    | 8/31/2006             | 8/31/2005 | 8/31/2006        | 8/31/2005 |
|                                    | <i>(In thousands)</i> |           |                  |           |
| Segment Operating Income           |                       |           |                  |           |
| Electrical and Industrial Products | \$ 5,148              | \$ 2,276  | \$ 9,228         | \$ 4,366  |
| Galvanizing Services               | 8,515                 | 2,653     | 15,020           | 6,395     |

|                                |           |          |           |           |
|--------------------------------|-----------|----------|-----------|-----------|
| Total Segment Operating Income | \$ 13,663 | \$ 4,929 | \$ 24,248 | \$ 10,761 |
|--------------------------------|-----------|----------|-----------|-----------|

Our total segment operating income increased 177% and 125% for the three and six-month periods ended August 31, 2006, to \$13.7 million and \$24.2 million as compared to \$4.9 million and \$10.8 million for the same periods in fiscal 2006.

Segment operating income in the Electrical and Industrial Products Segment increased 126% and 111% for the three and six-month periods ended August 31, 2006, to \$5.1 million and \$9.2 million as compared to \$2.3 million and \$4.4 million for the same periods in fiscal 2006. Operating margins were 14% for the three and six-month periods ended August 31, 2006, as compared to 7% for the comparable periods in fiscal 2006. Operating margins and profit resulted from leverage obtained through increased revenues and improved market conditions, which allowed for more aggressive pricing to recover a portion of material cost increases for copper, aluminum and steel that occurred over the past two years. We continue our emphasis on booking of business at specific targeted margin levels and pursuing price increases to recover increased cost of material. Management continues to focus on and emphasize operating efficiency improvement, cost containment, cost escalation recovery through pricing actions, expansion of served markets, and new product opportunities to further enhance our strategic position.

In the Galvanizing Services Segment, operating income increased 221% and 135% for the three and six-month periods ended August 31, 2006, to \$8.5 million and \$15 million, respectively, as compared to \$2.7 million and \$6.4 million for the same periods in fiscal 2006. The improved segment operating results are reflective of improved market conditions, which generated higher revenues, and better price realization required to offset the cost of zinc. Operating margins improved to 32% for both the three and six month periods ended August 31, 2006 as compared to 17% and 20% for the same periods in fiscal 2006. Due to our First In First Out (FIFO) cost basis on zinc inventory, the higher cost for zinc purchased in the first six months of the current fiscal year will not be recognized until subsequent quarters, so we do not believe the margins expressed as a percentage of sales can be maintained for the balance of the year. If Last In Last Out (LIFO) cost basis had been applied operating profits would have been reduced by \$3.4 and \$6.4 million for the three and six month periods ended August 31, 2006 and operating margins would have been 20% and 18% for these periods. For the six-month period ended August 31, 2006, operating income and margins benefited from insurance gains in the amount of \$441,000 related to Hurricanes Katrina and Rita. The carrying value of these affected assets was written off during fiscal 2006, when the damage was incurred.

*General Corporate Expenses*

General corporate expenses, (see Note 6 to consolidated condensed financial statements) not specifically identifiable to a segment, for the three-month period ended August 31, 2006, were \$5.1 million compared to \$2.2 million for the same period in fiscal 2006. For the six-month period ended August 31, 2006, general corporate expenses were \$8.5 million as compared to \$4.2 million. As a percentage of sales, general

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corporate expenses were 8% and 7.4% for the three and six-month periods ended August 31, 2006, as compared to 4.7% and 4.5% for the same period in fiscal 2006. The increased general corporate expense for the three and six-month periods ended August 31, 2006, resulted from increased compensation and employee profit sharing expense. The increased compensation expense of approximately \$1.2 million and \$1.5 million for the three and six months ended August 31, 2006, as compared to the same period in fiscal 2006, related primarily to our stock appreciation rights and the adoption of FASB Statement No. 123R. Our profit sharing program, which covers substantially all our employees, was reinstated for fiscal 2007 to enhance our ability to hire and retain qualified personnel. Increased costs related to this program were \$594,000 and \$878,000 for the three and six-month period ended August 31, 2006 as compared to the same period in fiscal 2006. Included in the three and six months period ended August 31, 2006 were costs related primarily to due diligence investigation of a potential acquisition target that were written off in the amount of \$331,000 due to the low probability of the acquisition taking place.

*Other (Income) Expense*

For the three-month and six-month periods ended August 31, 2006, the amounts in other (income) expense not specifically identifiable with a segment (see Note 7 to consolidated financial statements) were insignificant.

*Interest*

Net interest expense for the three and six-month periods ended August 31, 2006, decreased 38.5% and 25.4% as compared to the same periods in fiscal 2006. Reduced interest expense was due to significantly reduced levels of outstanding debt. As of August 31, 2006, we had outstanding bank debt of \$15.5 million, a decrease of \$4.4 million, as compared to \$19.9 million at the end of fiscal 2006. The long-term debt to equity ratio improved to .16 to 1 at August 31, 2006, as compared to .26 to 1 at the end of the same period in fiscal 2006.

*Income Taxes*

The provision for income taxes reflects an effective tax rate of 36% for the three-month period and 37% for the six-month period ended August 31, 2006, and 38% for the three and six-month period ended August 31, 2005. Benefits in our effective tax rate from the American Jobs Creation Act of 2005 were partially offset by higher statutory tax rate of 35% for the current period as compared to 34% in the prior year due to increased income levels.

**LIQUIDITY AND CAPITAL RESOURCES**

We have historically met our liquidity and capital needs through a combination of cash flows from operating activities and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, debt repayment and acquisitions. Management believes that working capital, borrowing capabilities, and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, scheduled debt payments and possible future acquisitions for the remainder of fiscal 2007.

Net cash provided by operations was \$8.5 million for the six-month period ended August 31, 2006, as compared to \$6 million for the same period in the prior fiscal year. Net cash provided by operations for the quarter ended August 31, 2006, was generated from \$9.4 million in net income, \$3.2 million in depreciation and amortization of intangibles and debt issue costs, and net changes in operating assets and liabilities and other adjustments to reconcile net income to net cash of a negative \$4.1 million. Positive cash flow was recognized due to decreased prepaid balances and other assets in the amount of \$.7 million and \$.1 million, respectively, as well as from increased accounts payable balances and other accrued liabilities in the amount of \$6.8 million and \$4.3 million, respectively. These positive cash flow items were offset by increases in inventories, accounts receivable balances and revenues in excess of billings in the

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amount of \$11.4 million, \$2 million, and \$2.1 million, respectively. The increased costs of zinc accounted for \$6.4 million of the overall inventory increase. Due to increased business levels and higher raw material costs in both segments of our business, working capital increased 40% to \$39.2 million at August 31, 2006, as compared to \$27.9 million at February 28, 2006.

For the six-month period ended August 31, 2006, capital improvements were made in the amount of \$4.1 million and long-term debt was repaid in the amount of \$4.4 million. We received proceeds from the sale and insurance settlement for property and equipment in the amount of \$.5 million and proceeds from the exercise of stock options in the amount of \$1.1 million.

On May 25, 2006, we entered into the Second Amended and Restated Credit Agreement (the Credit Agreement ), which replaced our Amended and Restated Revolving and Term Credit Agreement dated as of November 2001.

The Credit Agreement provides for a \$50 million revolving line of credit with one lender, Bank of America, N.A., maturing on May 25, 2011. This is an unsecured revolving credit facility to be used to refinance current outstanding borrowings, provide for working capital needs, capital improvements, future acquisitions, and letter of credit needs. At August 31, 2006, we had \$15.5 million borrowed against the revolving credit facility and letters of credit outstanding in the amount of \$8.9 million, which left approximately \$25.6 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants consisting of a) Minimum Consolidated Net Worth maintain on a consolidated basis net worth equal to at least the sum of \$69.8 million, representing 80% of net worth at February 28, 2006 plus 75% of future net income, b) Maximum Leverage Ratio- maintain on a consolidated basis a Leverage Ratio not to exceed 3.0:1.0, c) Fixed Charge Coverage Ratio- maintain on a consolidated basis a Fixed Charge Coverage Ratio of at least 1.5:1.0 and d) Capital Expenditures- not to make Capital Expenditures on a consolidated basis in an amount in excess of \$10 million during any fiscal year.

The Credit Agreement provides for an applicable margin ranging from .75% to 1.25% in addition to the Eurodollar Rate and Commitment Fees ranging from .175% to .25% depending on our Leverage Ratio (as defined in the Credit Agreement). The applicable margin was .75% at August 31, 2006. The variable interest rate including the applicable margin was 6.18% as of August 31, 2006.

We utilize interest rate protection agreements to moderate the effects of increases, if any, in interest rates by modifying the characteristics of interest obligations on long-term debt from a variable rate to a fixed rate. Presently, we have one outstanding interest rate swap. On March 31, 2005, we entered into an interest rate protection agreement (the 2005 Swap Agreement ) which matures in March 2008, whereby we pay a fixed rate of 5.20% in exchange for a variable 30-day LIBOR rate plus .75% (6.15% at August 31, 2006). At August 31, 2006, the remaining notional amount is \$9,625,000. Prior to May 2006, this swap was treated as a cash flow hedge of our variable interest rate exposure. However, we refinanced our credit agreement in May 2006 and chose to cease the hedge designation for the 2005 Swap Agreement while not terminating the swap agreement. Since that time, we began recognizing changes in fair value of this hedge directly into earnings, while amortizing the pretax amount included in accumulated other comprehensive income as additional interest income. For the three months ended August 31, 2006, we amortized \$15,000 of interest income and recognized mark-to-market loss of \$21,000 for subsequent changes in the fair value of this swap. At August 31, 2006, the fair value of the 2005 Swap Agreement was an asset of \$60,000, and a gain of \$43,000, net of tax, remains in accumulated other comprehensive income to be amortized as additional interest income. Given the maturity date of this interest rate swap, all amounts related to accumulated other comprehensive income are expected to flow through earnings by March 31, 2008.

**Table of Contents****OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS**

Other than operating leases discussed below, there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

**CONTRACTUAL COMMITMENTS***Leases*

We lease various facilities under non-cancelable operating leases with an initial term in excess of one year. The future minimum payments required under these operating leases are summarized in the table below.

*Commodity pricing*

We manage our exposure to commodity prices through various methods. In the Galvanizing Services Segment, we utilize contracts with our zinc suppliers that include protective caps to guard against rising commodity prices. These contracts are normally negotiated in December of each year and normally are for a twelve-month period of time. We also secure firm pricing for natural gas supplies with individual utilities when possible. There is no contracted volume purchase commitments associated with the natural gas or zinc agreements. Management believes these contractual agreements ensure adequate supplies and partially offset exposure to commodity price swings.

In the Electrical and Industrial Products Segment, we have exposure to commodity pricing for copper, aluminum, and steel. Because the Electrical and Industrial Products Segment does not commit contractually to minimum volumes, increases in price for these items are normally managed through escalation clauses in the customer's contracts, although during difficult market conditions these escalation clauses may not be obtainable.

We have no contracted volume commitments for any other commodities.

*Other*

At August 31, 2006, we had outstanding letters of credit in the amount of \$8.9 million. These letters of credit are issued to a portion of our customers to cover any potential warranty costs that the customer might incur. In addition, as of August 31, 2006, a warranty reserve in the amount of \$1.3 million has been established to offset any future warranty claims.

The following summarizes our operating leases, and long-term debt and interest expense for the next five fiscal years.

| Fiscal Year  | Operating<br>Leases | Long-Term<br>Debt<br><i>(In thousands)</i> | Interest on Long |
|--------------|---------------------|--|------------------|
|              |                     |  | Term Debt        |
| 2007         | \$ 699              | \$ 0                                       | \$ 441           |
| 2008         | 1,245               | 0  | 936              |
| 2009         | 929                 | 0  | 971              |
| 2010         | 1,145               | 0  | 971              |
| 2011         | 1,196               | 0  | 971              |
| Thereafter   | 2,301               | 15,500                                     | 229              |
| <b>Total</b> | <b>\$ 7,515</b>     | <b>\$ 15,500</b>                           | <b>\$ 4,519</b>  |

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the consolidated financial statements requires us to make estimates that affect the reported value of assets, liabilities, revenues and expenses. Management estimates are based on historical experience and various other factors that management believes reasonable under the circumstances, and form the basis for management's conclusions. Management continually evaluates the information used to make these estimates as business and economic conditions change. Accounting policies and estimates considered most critical are allowances for doubtful accounts, accruals for contingent liabilities, revenue recognition and impairment of long-lived assets, identifiable intangible assets and goodwill. Actual results may differ from these estimates under different assumptions or conditions. The development and selection of the critical accounting policies and the related disclosures below have been reviewed with the Audit Committee of the Board of Directors. More information regarding significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended February 28, 2006.

**Allowance for Doubtful Accounts-** The carrying value of our accounts receivable is continually evaluated based on the likelihood of collection. An allowance is maintained for estimated losses resulting from our customer's inability to make required payments. The allowance is determined by historical experience of uncollected accounts, the level of past due accounts, overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and future expectations of conditions that might impact the collectibility of accounts receivables. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Accruals for Contingent Liabilities -** The amounts we record for estimated claims, such as self insurance programs, warranty and other contingent liabilities, requires us to make judgments regarding the amount of expenses that will ultimately be incurred. Management uses past history and experience, as well as other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Actual results may be different than management estimates.

**Revenue Recognition** We recognize revenue for the Galvanizing Services Segment upon completion of the galvanizing process performed on our customer's material or shipment of their material. Revenue is recognized in the Electrical and Industrial Products Segment upon transfer of title and risk to customers, or based upon the percentage of completion method of accounting for electrical products built to customer specifications under long term contracts. Deferred revenue presented in the balance sheet under accrued liabilities arises from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material, and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are able to be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

**Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill** We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events, circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets.

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An annual impairment test of goodwill is performed in the fourth quarter of each year. The test is calculated using the anticipated future cash flows from our operating segments. Based on the present value of the future cash flow, management will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years.

Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market; changes in economic conditions of these various markets; raw material and natural gas costs; and availability of experienced labor and management to implement management's growth strategies.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk relating to our operations results primarily from changes in interest rates and commodity prices. We have only limited involvement with derivative financial instruments and we are not a party to any leveraged derivatives.

We manage our exposure to changes in interest rates through the use of variable rate debt and interest rate protection agreements. Reference the Liquidity and Capital Resources of the MD&A section of this report for a full discussion on our Interest Rate Swap Agreements.

We manage our exposure to commodity prices through various methods. In the Galvanizing Services Segment, we utilize agreements with zinc suppliers that include protective caps to guard against rising commodity prices.

In the Electrical and Industrial Product Segment, we have exposure to commodity pricing for copper, aluminum, and steel. Because the Electrical and Industrial Products Segment does not commit contractually to minimum volumes, increases in the price for these items are normally managed through escalation clauses to the customer's contracts, although during difficult market conditions these escalation clauses may be difficult to obtain.

Management does not believe there has been a material change in the nature of our commodity or interest rate commitments or risks since February 28, 2006.

We do not believe that a hypothetical change of 10% of the interest rate currently in effect or a change of 10% of commodity prices would have a significantly adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. To date, we have been successful in passing along the rising cost of zinc without an adverse effect on our results of operations. However, there can be no assurance that either interest rates or commodity prices will not change in excess of the 10% hypothetical amount, which could have an adverse effect on our results of operations, financial position, and cash flows if we are unable to pass along these increase to our customers.

### **Item 4. Controls and Procedures.**

We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is (a) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely discussions regarding required disclosure and (b) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.



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There have been no significant changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

While we believe that its existing disclosure controls and procedures have been effective to accomplish their objectives, we intend to continue to examine, refine and document our disclosure controls and procedures and to monitor ongoing developments in this area. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company has been detected.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are involved from time to time in various suits and claims arising in the normal course of business. In management's opinion, the ultimate resolution of these matters will not have a material effect on our financial position or results of operations.

### **Item 1A. Risk Factors**

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended February 28, 2006.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None.**

### **Item 3. Defaults Upon Senior Securities. None.**

### **Item 4. Submissions of Matters to a Vote of Security Holders**

Shareholders at the Company's Annual Meeting on July 11, 2006 (the "Annual Meeting") reelected three incumbent directors, David H. Dings, Dana L. Perry and Daniel E. Berce. Of the 5,286,748 shares represented at the meeting, 5,273,275 shares (99.7%) were voted for Mr. Dings, 5,238,569 (99.1%) were voted for Mr. Perry, and 4,721,696 (89.3%) were voted for Mr. Berce. Other directors continuing in office are Martin Bowen, Dr. H. Kirk Downey, Kevern Joyce, R.J. Schumacher, Sam Rosen, Daniel Feehan, and Robert Johnson.

### **Item 5. Other Information. Not Applicable**

### **Item 6. Exhibits.**

Exhibits Required by Item 601 of Regulation S-K.

A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Index to Exhibits on page 21, which immediately precedes such exhibits.

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**SIGNATURES**

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.

AZZ incorporated  
(Registrant)

Date: September 29, 2006

/s/ Dana Perry  
Dana Perry, Senior Vice President for Finance  
Principal Financial Officer

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**EXHIBIT**

**INDEX**

**EXHIBIT**

**NUMBER DESCRIPTION OF EXHIBIT**

- 3.1 Articles of Incorporation, and all amendments thereto (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 1981).
- 3.2 Articles of Amendment to the Article of Incorporation of the Registrant dated June 30, 1988 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
- 3.3 Articles of Amendment to the Articles of Incorporation of the Registrant dated October 25, 1999 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
- 3.4 Articles of Amendment to the Articles of Incorporation dated July 17, 2000 (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant for the quarter ended August 31, 2000).
- 3.5 Bylaws of AZZ incorporated as restated through September 24, 2003 (incorporated by reference to the Exhibit 3(5) to the Quarterly Report Form 10-Q filed by the Registrant for the quarter ended August 31, 2003).
- 4 Form of Stock Certificate for the Company's \$1.00 par value Common Stock (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant for the quarter ended August 31, 2003).
- 10.60 Second Amended and Restated Credit Agreement dated May 25, 2006 (incorporated by reference to Exhibit 10(1) to Form 8-K file by registrant on May 25, 2005).
- 31.1 Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated September 29, 2006. Filed herewith.
- 31.2 Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated September 29, 2006. Filed herewith.
- 32.1 Chief Executive Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated September 29, 2006. Filed herewith.
- 32.2 Chief Financial Officer Certificate pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated September 29, 2006. Filed herewith.