

AMERON INTERNATIONAL CORP  
Form 10-Q  
September 27, 2002

**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, 2002

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1 - 9102

**AMERON INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of

incorporation or organization)

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

**(626) 683-4000**

(Registrant's telephone number, including area code)

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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

The number of shares outstanding of Common Stock, \$2.50 par value, was 3,943,912 on August 31, 2002. No other class of Common Stock exists.

1

**AMERON INTERNATIONAL CORPORATION**

**INDEX**

Page

PART I. FINANCIAL INFORMATION

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

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	14
Item 2.	Changes in Securities	14
Item 6.	Exhibits and Reports on Form 8-K	15

SIGNATURE PAGE	16
----------------	----

CERTIFICATIONS	17
----------------	----

**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)**

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2002	2001	2002	2001
Sales	\$ 138,813	\$ 144,864	\$ 397,614	\$ 410,139
Cost of Sales	(102,260)	(108,354)	(295,058)	(308,964)
Gross Profit	36,553	36,510	102,556	101,175
Selling, General and Administrative Expenses	(25,312)	(23,906)	(80,688)	(77,347)
Equity in Earnings of Joint Ventures	4,192	1,114	9,012	5,002
Other (Expense) Income, Net	(143)	390	2,128	3,186
Income before Interest and Income Taxes	15,290	14,108	33,008	32,016
Interest Income	50	51	135	156
Interest Expense	(1,726)	(2,535)	(5,804)	(8,528)
Income before Income Taxes	13,614	11,624	27,339	23,644
Provision for Income Taxes	(4,903)	(3,254)	(9,295)	(6,620)
Net Income	\$ 8,711	\$ 8,370	\$ 18,044	\$ 17,024
Net Income per Share (Basic)	\$ 2.24	\$ 2.16	\$ 4.65	\$ 4.40
Net Income per Share (Diluted)	\$ 2.12	\$ 2.09	\$ 4.36	\$ 4.30
Weighted Average Shares (Basic)	3,892,507	3,872,907	3,879,953	3,870,790
Weighted Average Shares (Diluted)	4,114,537	4,014,293	4,139,684	3,957,261
Cash Dividends per Share	\$ .32	\$ .32	\$ .96	\$ .96

See accompanying notes to consolidated financial statements.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	August 31, 2002 ( Unaudited )	November 30, 2001
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 10,356	\$ 11,315
Receivables, Less Allowances of \$7,069 in 2002 and \$6,699 in 2001	132,137	135,963
Inventories	85,289	92,534
Deferred Income Taxes	19,242	19,242
Prepaid Expenses and Other Current Assets	8,199	6,654
	-----	-----
Total Current Assets	255,223	265,708
Investments, Advances and Equity in Undistributed Earnings of Joint Ventures	19,949	18,780
Property, Plant and Equipment, Net	145,621	145,801
Intangible assets, Net of Accumulated Amortization of \$8,380 in 2002 and \$7,623 in 2001	13,069	13,158
Other Assets	42,442	41,633
	-----	-----
Total Assets	\$ 476,304	\$ 485,080
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ 1,206	\$ 4,080
Current Portion of Long-Term Debt	71,758	8,597
Trade Payables	43,279	46,703
Accrued Liabilities	47,761	47,486
Income Taxes Payable	4,653	2,352
	-----	-----
Total Current Liabilities	168,657	109,218
Long-Term Debt, Less Current Portion	52,120	137,197
Other Long-Term Liabilities	28,968	34,418
	-----	-----
Total Liabilities	249,745	280,833
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 3,943,912 Shares in 2002 and 3,873,007 in 2001, Net of Treasury Shares	13,194	13,017
Additional Paid-In Capital	21,099	19,457
Retained Earnings	261,696	247,406
Accumulated Other Comprehensive Loss	(20,771)	(26,974)
Treasury Stock (1,333,655 Shares in 2002 and 2001)	(48,659)	(48,659)
	-----	-----
Total Stockholders' Equity	226,559	204,247
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 476,304	\$ 485,080
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended August 31,	
	2002	2001
Cash Flows from Operating Activities		
Net Income	\$ 18,044	\$ 17,024
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	13,372	13,288
Amortization	419	631
Provision for Deferred Income Taxes	1,611	3,561
Equity in Earnings of Joint Ventures	(9,012)	(5,002)
Dividends from Joint Ventures	8,598	4,368
Gain from Sale of Assets	(70)	(25)
Stock Compensation Expense	540	1,451
Changes in Operating Assets and Liabilities:		
Receivables	6,976	1,062
Inventories	7,875	(10,163)
Prepaid Expenses and Other Current Assets	(1,373)	(1,179)
Other Assets	(880)	(6,234)
Trade Payables	(4,541)	(441)
Other Current Liabilities	2,247	(12,114)
Other Long-Term Liabilities	(7,027)	2,960
Net Cash Provided by Operating Activities	36,779	9,187
Cash Flows from Investing Activities		
Proceeds from Sale of Property, Plant and Equipment	370	830
Additions to Property, Plant and Equipment	(10,570)	(15,593)
Net Cash Used in Investing Activities	(10,200)	(14,763)
Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	(3,165)	(503)
Issuance of Debt	785	9,583
Repayment of Debt, Net	(22,600)	(398)
Dividends on Common Stock	(3,754)	(3,716)
Issuance of Common Stock	1,279	130
Purchase of Treasury Stock	--	13
Net Cash (Used in) Provided By Financing Activities	(27,455)	5,109
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(83)	149
Net Change in Cash and Cash Equivalents	(959)	(318)
Cash and Cash Equivalents at Beginning of Period	11,315	11,514
Cash and Cash Equivalents at End of Period	\$ 10,356	\$ 11,196

See accompanying notes to consolidated financial statements.

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

**Note 1. Basis Of Presentation**

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

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

**Note 2. New Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board issued 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 intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. SFAS No. 142 is effective for the Company and will be adopted beginning December 1, 2002. The Company is currently evaluating the impact of adopting SFAS No. 142.

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

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

**Note 3. Inventories**

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

	August 31, 2002	November 30, 2001
	-----	-----
Finished Products	\$ 52,526	\$ 58,397
Materials and Supplies	22,061	22,084
Products in Process	10,702	12,053
	-----	-----
	\$ 85,289	\$ 92,534
	=====	=====

**Note 4. Supplemental Disclosure of Cash Flow Information**

	Nine Months Ended August 31,	
	-----	-----
	2002	2001
	-----	-----
Interest Paid	\$ 4,705	\$ 7,831
Income Taxes Paid	\$ 5,214	\$ 7,523

**Note 5. Joint Ventures**

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

	Three Months Ended August 31,		Nine Months Ended August 31,	
	-----	-----	-----	-----
	2002	2001	2002	2001
	-----	-----	-----	-----
Net Sales	\$ 54,647	\$ 57,402	\$ 158,481	\$ 168,290
Gross Profit	\$ 10,972	\$ 13,756	\$ 39,375	\$ 43,352
Net Income	\$ 4,365	\$ 6,977	\$ 17,807	\$ 20,845

Amounts shown above include the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three and nine months ended June 30, 2002 and 2001 and TAMCO for the three and nine months ended August 31, 2002 and 2001.

**Note 6. Net Income Per Share**

Basic net income per share is computed on the basis of the weighted average number of common shares outstanding during the periods presented. Common shares outstanding includes 40,000 restricted shares. Unvested restricted shares that are forfeitable are excluded from the basic share calculation. Diluted net income per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options and other common stock equivalents, using the treasury stock method. For the three and nine months ended August 31, 2002, options to purchase 10,500 common shares were anti-dilutive. All outstanding common stock equivalents were dilutive for the three months ended August 31, 2001, while options to purchase 74,500 common shares were anti-dilutive for the nine months ended August 31, 2001.



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

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2002	2001	2002	2001
Basic Average Common Shares Outstanding	3,892,507	3,872,907	3,879,953	3,870,790
Dilutive Effect of Common Stock Equivalents	222,030	141,386	259,731	86,471
Diluted Average Common Shares	4,114,537	4,014,293	4,139,684	3,957,261

#### Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2002	2001	2002	2001
Net Income	\$ 8,711	\$ 8,370	\$ 18,044	\$ 17,024
Foreign Currency Translation Adjustment	1,774	4,407	5,448	2,203
Comprehensive Income from Joint Venture	218	--	755	--
Comprehensive Income	\$ 10,703	\$ 12,777	\$ 24,247	\$ 19,227

#### Note 8. Debt

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

	August 31, 2002	November 30, 2001
Fixed-rate unsecured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 41,666	\$ 41,666
Variable-rate industrial development bonds, Payable in 2016 (1.55% at August 31, 2002)	7,200	7,200
Variable-rate industrial development bonds, Payable in 2021 (1.70% at August 31, 2002)	8,500	8,500
Variable-rate unsecured bank revolving credit facilities; payable in 2003 (2.58% at August 31, 2002)	63,425	84,910
Variable-rate unsecured bank loan, Payable in 2004 (16.08% at August 31, 2002)	3,087	3,254
Variable-rate unsecured bank loan, payable in Euros	--	264
Total long-term debt	123,878	145,794

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Less current portion	(71,758)	(8,597)
	-----	-----
Long-term debt, less current portion	\$ 52,120	\$ 137,197
	=====	=====

**Note 9. Segment Information**

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

8

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

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2002	2001	2002	2001
Sales				
Performance Coatings & Finishes	\$ 47,409	\$ 49,362	\$ 134,325	\$ 143,906
Fiberglass-Composite Pipe	22,705	29,038	63,931	83,180
Water Transmission	34,296	36,980	108,175	98,732
Infrastructure Products	34,582	29,489	91,882	84,969
Eliminations	(179)	(5)	(699)	(648)
	-----	-----	-----	-----
Total Sales	\$ 138,813	\$ 144,864	\$ 397,614	\$ 410,139
	=====	=====	=====	=====
Income Before Interest and Income Taxes				
Performance Coatings & Finishes	\$ 2,912	\$ 3,383	\$ 5,128	\$ 7,764
Fiberglass-Composite Pipe	1,989	2,229	7,372	9,761
Water Transmission	9,285	7,173	21,288	14,944
Infrastructure Products	4,750	3,020	11,346	8,770
Corporate & Unallocated	(3,646)	(1,697)	(12,126)	(9,223)
	-----	-----	-----	-----
Total Income Before Interest and Income Taxes	\$ 15,290	\$ 14,108	\$ 33,008	\$ 32,016
	=====	=====	=====	=====
			August 31, 2002	November 30, 2001
			-----	-----
Assets				
Performance Coatings & Finishes			\$ 135,756	\$ 133,332
Fiberglass-Composite Pipe			136,989	133,267
Water Transmission			110,883	123,175
Infrastructure Products			72,417	65,518
Corporate & Unallocated			153,953	168,697
Eliminations			(133,694)	(138,909)
			-----	-----
Total Assets			\$ 476,304	\$ 485,080
			=====	=====

**Note 10. Commitments & Contingencies**

An action was filed in 1992 in the U.S. District Court for the District of Arizona by the Central Arizona Water Conservation District ("CAWCD") seeking damages against several parties, including the Company and the Company's customer, Peter Kiewit Sons Company ("Kiewit"), in connection with six prestressed concrete pipe siphons furnished and installed in the 1970's as part of the Central Arizona Project

("CAP"), a federal project to bring water from the Colorado River to Arizona. The CAWCD also filed separate actions against the U.S. Bureau of Reclamation ("USBR") in the U.S. Court of Claims and with the Arizona Projects Office of the USBR in connection with the CAP siphons. The CAWCD alleged that the six CAP siphons were defective and that the USBR and the defendants in the U.S. District Court action were liable for damages for the repair or replacement of those siphons. On September 14, 1994, the U.S. District Court granted the Company's motion to dismiss the CAWCD action and entered judgement against the CAWCD and in favor of the Company and its co-defendants. CAWCD filed a notice of appeal with the Ninth Circuit Court of Appeals.

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

9

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

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

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

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

The Company is one of numerous defendants in various pending lawsuits involving 4,093 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals or their representatives, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

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

**Ameron International Corporation and Subsidiaries**

**August 31, 2002**

**INTRODUCTION**

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

10

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

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

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

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

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out (FIFO) method. Certain steel inventories are valued using the last-in, first-out (LIFO) method. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. Property, plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally 3 to 40 years.

Investments in joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Reserves are provided where management

determines that a portion of the investment or earnings are estimated not to be realizable.

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

The Company is self insured for 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 certain actuarial assumptions followed in the insurance industry and historical experience.

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

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

During the nine months ended August 31, 2002, the Company generated \$36.8 million of cash from operating activities compared to \$9.2 million generated from operations for the same period in 2001. The higher operating cash flow in 2002 was due principally to higher income and lower working capital requirements, primarily lower receivables and lower inventories.

Net cash of \$10.2 million was used in investing activities for the nine months ended August 31, 2002, compared to \$14.8 million used in the same period in 2001. Cash used in investing activities consisted primarily of capital expenditures for normal replacement and upgrades of machinery and equipment. Cash used in investing activities in 2001 also included capital expenditures for a new concrete pole plant in Alabama. Management estimates that capital expenditures during fiscal 2002 will be between \$13.0 million and \$18.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations and additional borrowings.

Net cash used in financing activities was \$27.5 million in 2002, compared to \$5.1 million provided by financing activities in 2001. During 2002, \$25.0 million was used to repay debt, and \$3.8 million was used for payment of common stock dividends. In 2002, \$1.3 million was received from the issuance of common stock related to the exercise of stock options.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Cash and cash equivalents at August 31, 2002 totaled \$10.4 million, a decrease of \$1.0 million from November 30, 2001. At August 31, 2002, the Company had total debt outstanding of \$125.1 million and approximately \$127 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company is currently negotiating with its banks to obtain a new revolving credit facility to replace the Company's principal bank facility, a \$150 million revolving credit facility of which \$51 million was utilized as of August 31, 2002. The Company is able to borrow under the existing facility through April 3, 2003.

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

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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$123,878	\$ 71,758	\$ 28,086	\$ 8,334	\$15,700
Operating Leases	41,383	5,085	7,218	4,158	24,922
<b>Total Contractual Obligations (b)</b>	<b>\$165,261</b>	<b>\$ 76,843</b>	<b>\$ 35,304</b>	<b>\$12,492</b>	<b>\$40,622</b>

  

Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Line of Credit (a)	\$ 1,206	\$ 1,206	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	1,664	1,664	--	--	--
Guarantees (d)	4,692	4,692	--	--	--
<b>Total Commercial Commitments (b)</b>	<b>\$ 7,562</b>	<b>\$ 7,562</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

- (a) Included in long-term debt is \$63,425 outstanding under unsecured bank lines supported by a revolving credit facility, due in April, 2003. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, or standby repurchase obligations.
- (c) Not included are standby letters of credit of \$15,700 supporting industrial development bonds and \$3,087 supporting a bank loan, which are included in long-term debt.
- (d) The Company guarantees bank credit facilities for a joint venture.

**RESULTS OF OPERATIONS**

Net income totaled \$8.7 million, or \$2.12 per diluted share, on sales of \$138.8 million for the third quarter of 2002, compared to earnings of \$8.4 million, or \$2.09 per diluted share, on sales of \$144.9 million for the same period in 2001. All operating groups, except Infrastructure Products Group, had lower sales. The slight, overall improvement in net income came principally from higher operating margins, higher equity income and lower interest expense.

## Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Net income totaled \$18.0 million, or \$4.36 per diluted share, on sales of \$397.6 million for the nine months ended August 31, 2002, compared to earnings of \$17.0 million, or \$4.30 per diluted share, on sales of \$410.1 million for the same period in 2001. Higher segment income from the Water Transmission Group and the Infrastructure Products Group offset lower segment income from the Performance Coatings & Finishes Group and the Fiberglass-Composite Pipe Group. The overall improvement in net income came primarily from higher operating margins, higher equity income and lower interest expense.

Sales of the Water Transmission Group decreased \$2.7 million in the third quarter and increased \$9.4 million in the nine months ended August 31, 2002, compared to the same periods of 2001. Sales were lower in the third quarter due to the anticipated slowdown of operations in Northern California, which contributed to the sales increase in the first half of 2002, and production delays associated with the San Francisco/Oakland Bay Bridge project. Segment income increased \$2.1 million in the third quarter and increased \$6.3 million in the nine months ended August 31, 2002, compared to the same periods of 2001. Segment income in the third quarter was higher in spite of lower sales as a result of equity income of \$3.3 million in 2002, compared to none in the same period of 2001, from Ameron's Saudi Arabian concrete-pipe affiliate. The long-term outlook for the Water Transmission Group remains positive based on current backlog.

Sales of the Company's worldwide Fiberglass-Composite Pipe Group decreased \$6.3 million in the third quarter and \$19.2 million in the nine months ended August 31, 2002, compared to the same periods of 2001. Sales decreased during the quarter and year to date because of the sluggishness in domestic and European industrial and fuel-handling markets, as well as softening in the worldwide oilfield market. Demand for oilfield piping remained lower during the third quarter because of uncertainty regarding the sustainability of oil prices. Additionally, Ameron's U.S. industrial business completed deliveries of a large water pipeline for a project in California during 2001. Segment income decreased by \$2 million in the third quarter and \$2.4 million in the nine months ended August 31, 2002, compared to the same periods of 2001, due to lower sales. The profit reduction caused by lower sales was partially offset by higher margins associated with a change in product mix and lower raw materials costs. The near-term outlook for the Fiberglass-Composite Pipe Group remains uncertain; however, increased activity in Asian markets should offset the current slowdown in markets served by Ameron's U.S. and European operations.

Sales of the Performance Coatings & Finishes Group decreased \$2.0 million in the third quarter and \$9.6 million in the nine months ended August 31, 2002, compared to the same periods of 2001. Throughout 2002, sales of high-performance protective coatings declined in both Europe and the U.S., while sales of light-industrial finishes in Australia and New Zealand were higher. Segment income decreased \$0.5 million in the third quarter and \$2.6 million in the nine months ended August 31, 2002, compared to the same periods of 2001, as a result of lower sales. Margins improved slightly throughout 2002 due to lower raw material costs. The outlook for the Performance Coatings & Finishes Group is dependent on the timing and strength of the economic recovery and improvements in the markets for high performance coatings.

Sales of the Infrastructure Products Group increased \$5.1 million in the third quarter and \$6.9 million in the nine months ended August 31, 2002, compared to the same periods of 2001, due to higher sales by Hawaiian and pole operations. Segment income increased by \$1.7 million for the third quarter and \$2.6 million in the nine months ended August 31, 2002, compared to the same periods of 2001. Sales of pole products increased as low interest rates continued to drive the strong U.S. housing market. Hawaiian operations benefited from the continued strength of residential, military and road construction in Hawaii. The outlook for the Infrastructure Products Group continues to improve due to the pace of construction in Hawaii and the rest of the U.S.

The Company's gross profit was flat for the third quarter and increased \$1.4 million in the nine months ended August 31, 2002, despite reduced sales. Gross profit margins for the Company as a whole improved for the third quarter and the nine months ended August 31, 2002, compared to the same periods in 2001, primarily due to improved project and product mix within the Fiberglass-Composite Pipe Group and lower raw material costs for both the Fiberglass-Composite Pipe and Performance Coatings & Finishes Groups.

Selling, General and Administrative expenses were slightly higher in the third quarter and nine months ended August 31, 2002, compared to the same periods of 2001, primarily due to higher legal, insurance and pension costs.

13

Interest expense decreased \$0.8 million for the third quarter and \$2.7 million in the nine months ended August 31, 2002, compared to the same periods in 2001. The lower interest expense resulted primarily from lower interest rates on the Company's variable-rate debt.

The effective tax rate was 36% in the third quarter and 34% in the nine months ended August 31, 2002, compared to 28% for the same periods in 2001. The higher effective tax rate reflects the anticipated mix of income from domestic operations, foreign operations and joint ventures. Income from certain foreign operations and joint ventures is taxed at rates substantially lower than U.S. statutory tax rates.

### Item 3. Quantitative and Qualitative Market Risk Disclosure

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

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

Within the 90 days prior to the date of this report, 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 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 the date of their evaluation.

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

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

## **Part II. OTHER INFORMATION**

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

The Company is one of numerous defendants in various pending lawsuits involving 4,093 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals or their representatives, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

### **Item 2. Changes in Securities**

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$28.4 million of consolidated retained earnings were not restricted at August 31, 2002.

### **Item 6. Exhibits and Reports on Form 8-K**

For the third quarter of 2002, a Form 8-K is being filed simultaneously for the Company related to the certification required under Section 906 of the Sarbanes-Oxley Act of 2002.



**Signature Page**

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

Ameron International Corporation

Date: September 26, 2002

By:

-----

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

**Signature Page**

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

Ameron International Corporation

Date: September 26, 2002

By: /s/ Gary Wagner

-----

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

CERTIFICATIONS

I, Gary Wagner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 26, 2002

/s/ Gary Wagner

-----  
Gary Wagner  
*Senior Vice President, Chief Financial Officer*

17

CERTIFICATIONS

I, James S. Marlen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 26, 2002

/s/ James S. Marlen  
-----

James S. Marlen

*Chairman of the Board, President & Chief Executive Officer*