

AMERON INTERNATIONAL CORP  
Form 10-Q  
March 26, 2004

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

(Mark One)

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

**For the quarterly period ended February 29, 2004**

**or**

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

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

**Commission File No. 1 - 9102**

**AMERON INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of

incorporation or organization)

**245 South Los Robles Avenue  
Pasadena, California 91101-3638**  
(Address of principal executive offices)

**(626) 683-4000**

(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant is an accelerated filer (as indicated in Rule 12b-2 of the Exchange Act). Yes/x/ No / /

The number of shares outstanding of Common Stock, \$2.50 par value, was 8,207,703 on February 29, 2004. No other class of Common Stock exists.

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### AMERON INTERNATIONAL CORPORATION

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

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

|                                                   | Three Months Ended<br>February 29 and 28, |            |
|---------------------------------------------------|-------------------------------------------|------------|
|                                                   | 2004                                      | 2003       |
| Sales                                             | \$ 129,668                                | \$ 130,623 |
| Cost of Sales                                     | (99,729)                                  | (97,950)   |
| Gross Profit                                      | 29,939                                    | 32,663     |
| Selling, General and<br>Administrative Expenses   | (33,316)                                  | (28,561)   |
| Equity in Earnings of Joint Venture               | 534                                       | (22)       |
| Other Income, Net                                 | 566                                       | 88         |
| (Loss)/Income before Interest<br>and Income Taxes | (2,277)                                   | 4,768      |
| Interest Expense, Net                             | (1,771)                                   | (1,467)    |
| (Loss)/Income before Income Taxes                 | (4,048)                                   | 3,291      |
| Provision for Income Taxes                        | 1,295                                     | (1,120)    |
| Net (Loss)/Income                                 | \$ (2,753)                                | \$ 2,171   |
| Net (Loss)/Income per Share (Basic)               | \$ (.34)                                  | \$ .28     |
| Net (Loss)/Income per Share (Diluted)             | \$ (.34)                                  | \$ .27     |
| Weighted-Average Shares (Basic)                   | 8,163,420                                 | 7,827,540  |
| Weighted-Average Shares (Diluted)                 | 8,163,420                                 | 8,026,190  |
| Cash Dividends per Share                          | \$ .20                                    | \$ .10     |

See accompanying notes to consolidated financial statements.

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

|                                                                                               | February 29,<br>2004<br>( Unaudited ) | November 30,<br>2003 |
|-----------------------------------------------------------------------------------------------|---------------------------------------|----------------------|
|                                                                                               | -----                                 | -----                |
| ASSETS                                                                                        |                                       |                      |
| Current Assets                                                                                |                                       |                      |
| Cash and Cash Equivalents                                                                     | \$ 24,871                             | \$ 20,390            |
| Receivables, Less Allowances of \$8,539<br>in 2004 and \$8,168 in 2003                        | 140,931                               | 155,629              |
| Inventories                                                                                   | 92,446                                | 91,371               |
| Deferred Income Taxes                                                                         | 19,241                                | 19,241               |
| Prepaid Expenses and Other Current Assets                                                     | 10,687                                | 8,882                |
|                                                                                               | -----                                 | -----                |
| Total Current Assets                                                                          | 288,176                               | 295,513              |
| Investments in Joint Ventures                                                                 |                                       |                      |
| Equity Method                                                                                 | 13,371                                | 13,064               |
| Cost Method                                                                                   | 5,479                                 | 5,479                |
| Property, Plant and Equipment                                                                 |                                       |                      |
| Land                                                                                          | 38,281                                | 37,787               |
| Buildings                                                                                     | 85,964                                | 84,426               |
| Machinery and Equipment                                                                       | 288,485                               | 283,123              |
| Construction in Progress                                                                      | 6,806                                 | 6,169                |
|                                                                                               | -----                                 | -----                |
| Total Property, Plant and Equipment at Cost                                                   | 419,536                               | 411,505              |
| Accumulated Depreciation                                                                      | (268,381)                             | (260,919)            |
|                                                                                               | -----                                 | -----                |
| Total Property, Plant and Equipment, Net                                                      | 151,155                               | 150,586              |
| Deferred Income Taxes                                                                         | 6,829                                 | 6,744                |
| Intangible Assets, Net of Accumulated Amortization<br>of \$10,093 in 2004 and \$9,738 in 2003 | 13,827                                | 13,526               |
| Other Assets                                                                                  | 48,960                                | 48,580               |
|                                                                                               | -----                                 | -----                |
| Total Assets                                                                                  | \$ 527,797                            | \$ 533,492           |
|                                                                                               | =====                                 | =====                |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                          |                                       |                      |
| Current Liabilities                                                                           |                                       |                      |
| Short-Term Borrowings                                                                         | \$ 175                                | \$ --                |
| Current Portion of Long-Term Debt                                                             | 8,333                                 | 8,333                |
| Trade Payables                                                                                | 45,073                                | 47,512               |
| Accrued Liabilities                                                                           | 48,320                                | 53,091               |
| Income Taxes Payable                                                                          | 4,749                                 | 9,568                |
|                                                                                               | -----                                 | -----                |
| Total Current Liabilities                                                                     | 106,650                               | 118,504              |
| Long-Term Debt, Less Current Portion                                                          | 88,272                                | 86,044               |

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|                                                                                                                                                                   |            |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Other Long-Term Liabilities                                                                                                                                       | 74,959     | 72,832     |
|                                                                                                                                                                   | -----      | -----      |
| Total Liabilities                                                                                                                                                 | 269,881    | 277,380    |
|                                                                                                                                                                   | -----      | -----      |
| Stockholders' Equity                                                                                                                                              |            |            |
| Common Stock, Par Value \$2.50 a Share,<br>Authorized 12,000,000 Shares, Outstanding<br>8,207,703 Shares in 2004 and 8,214,563<br>in 2003, Net of Treasury Shares | 27,186     | 27,186     |
| Additional Paid-In Capital                                                                                                                                        | 17,085     | 16,443     |
| Unearned Restricted Stock                                                                                                                                         | (1,310)    | (1,481)    |
| Retained Earnings                                                                                                                                                 | 289,859    | 294,255    |
| Accumulated Other Comprehensive Loss                                                                                                                              | (26,130)   | (31,768)   |
| Treasury Stock (2,666,670 Shares<br>in 2004 and 2,659,810 in 2003)                                                                                                | (48,774)   | (48,523)   |
|                                                                                                                                                                   | -----      | -----      |
| Total Stockholders' Equity                                                                                                                                        | 257,916    | 256,112    |
|                                                                                                                                                                   | -----      | -----      |
| Total Liabilities and Stockholders' Equity                                                                                                                        | \$ 527,797 | \$ 533,492 |
|                                                                                                                                                                   | =====      | =====      |

See accompanying notes to consolidated financial statements.

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

|                                                                                             | Three Months Ended<br>February 29 and 28, |          |
|---------------------------------------------------------------------------------------------|-------------------------------------------|----------|
|                                                                                             | 2004                                      | 2003     |
|                                                                                             | -----                                     | -----    |
| Cash Flows from Operating Activities                                                        |                                           |          |
| Net (Loss)/Income                                                                           | \$ (2,753)                                | \$ 2,175 |
| Adjustments to Reconcile Net (Loss)/Income to Net Cash<br>Provided by Operating Activities: |                                           |          |
| Depreciation                                                                                | 4,561                                     | 4,495    |
| Amortization                                                                                | 63                                        | 94       |
| Provision for Deferred Income Taxes                                                         | 17                                        | 205      |
| Net Earnings and Distributions from Joint Ventures                                          | 71                                        | 495      |
| (Gain)/Loss from Sale of Assets                                                             | (5)                                       | 5        |
| Stock Compensation Expense                                                                  | 813                                       | (225)    |
| Changes in Operating Assets and Liabilities:                                                |                                           |          |
| Receivables                                                                                 | 17,062                                    | 3,912    |
| Inventories                                                                                 | 286                                       | (588)    |
| Prepaid Expenses and Other Current Assets                                                   | (1,711)                                   | (3,074)  |
| Other Assets                                                                                | (365)                                     | (3,422)  |
| Trade Payables                                                                              | (3,262)                                   | 4,353    |
| Accrued Liabilities and Income Taxes Payable                                                | (10,129)                                  | (265)    |
| Other Long-Term Liabilities                                                                 | 2,029                                     | 4,695    |
|                                                                                             | -----                                     | -----    |
| Net Cash Provided by Operating Activities                                                   | 6,677                                     | 12,855   |

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|                                                                 |           |           |
|-----------------------------------------------------------------|-----------|-----------|
| Cash Flows from Investing Activities                            |           |           |
| Proceeds from Sale of Assets                                    | 119       | 228       |
| Additions to Property, Plant and Equipment                      | (3,034)   | (3,902)   |
| Net Cash Used in Investing Activities                           | (2,915)   | (3,674)   |
| Cash Flows from Financing Activities                            |           |           |
| Net Change in Short-Term Borrowings                             | 172       | (1,320)   |
| Issuance of Debt                                                | 2,044     | 65,413    |
| Repayment of Debt                                               | --        | (68,523)  |
| Debt Issuance Costs                                             | --        | (1,468)   |
| Dividends on Common Stock                                       | (1,643)   | (1,264)   |
| Issuance of Common Stock                                        | --        | 147       |
| Change in Treasury Stock                                        | (251)     | 27        |
| Net Cash Provided by/(Used in) Financing Activities             | 322       | (6,988)   |
| Effect of Exchange Rate Changes<br>on Cash and Cash Equivalents | 397       | 350       |
| Net Change in Cash and Cash Equivalents                         | 4,481     | 2,543     |
| Cash and Cash Equivalents at Beginning of Period                | 20,390    | 10,360    |
| Cash and Cash Equivalents at End of Period                      | \$ 24,871 | \$ 12,903 |

See accompanying notes to consolidated financial statements.

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

### Note 1. Basis Of Presentation

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation and all wholly-owned subsidiaries (the "Company" or "Ameron" or the "Registrant") at February 29, 2004, and its consolidated results of operations and cash flows for the three months ended February 29, 2004 and February 28, 2003. 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, 2003 ("2003 Annual Report").

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

### Note 2. New Accounting Pronouncements

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In December 2003, the Financial Accounting Standards Board ("FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". The revision to SFAS No. 132 requires additional disclosures relating to the description of the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans recognized during interim periods. These disclosure requirements are effective for the Company's first quarter and all future quarterly and annual reports. Disclosures required under SFAS No. 132 are included in Note 14, herein.

On January 12, 2004, the FASB issued a FASB Staff Position ("FSP") regarding SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" discusses the effect of the Medicare Prescription Drug, Improvement and Modernization Act ("the Act") enacted on December 8, 2003. FSP 106-1 considers the effect of the two new features introduced in the Act in determining accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit cost, which may serve to reduce a company's post-retirement benefit costs. Companies may elect to defer accounting for this benefit or may attempt to reflect the best estimate of the impact of the Act on net periodic costs currently. The Company has chosen to defer accounting for the benefit until the FASB issues final accounting guidance due to various uncertainties related to this legislation and the appropriate accounting. The Company's measures of APBO and net periodic postretirement benefit costs as of and for the quarter ended February 29, 2004 do not reflect the effect of the Act.

### Note 3. Inventories

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

|                        | February 29,<br>2004 | November 30,<br>2003 |
|------------------------|----------------------|----------------------|
| Finished Products      | \$ 53,448            | \$ 52,821            |
| Materials and Supplies | 22,377               | 22,037               |
| Products in Process    | 16,621               | 16,513               |
|                        | -----                | -----                |
|                        | \$ 92,446            | \$ 91,371            |
|                        | =====                | =====                |

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

|                              | Three Months Ended<br>February 29 and 28, |          |
|------------------------------|-------------------------------------------|----------|
|                              | 2004                                      | 2003     |
|                              | -----                                     | -----    |
| Interest Paid                | \$ 2,058                                  | \$ 987   |
| Income Taxes Paid/(Refunded) | \$ 3,329                                  | \$ (795) |

### Note 5. Joint Ventures

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

|              | Three Months Ended<br>February 29 and 28, |           |
|--------------|-------------------------------------------|-----------|
|              | 2004                                      | 2003      |
|              | -----                                     | -----     |
| Net Sales    | \$ 45,790                                 | \$ 32,591 |
| Gross Profit | \$ 3,233                                  | \$ 811    |

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Net Income/(Loss) \$ 990 \$ (440)

Investments in Ameron Saudi Arabia, Ltd. ("ASAL"), Bondstrand, Ltd. ("BL") and Oasis-Ameron, Ltd. ("OAL") are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures.

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

|                                               | Three Months Ended<br>February 29 and 28, |          |
|-----------------------------------------------|-------------------------------------------|----------|
|                                               | 2004                                      | 2003     |
| Earnings/(Losses) from Joint Venture<br>TAMCO | \$ 534                                    | \$ (220) |
| Dividends Received from Joint Ventures        |                                           |          |
| TAMCO                                         | \$ 605                                    | \$ 275   |
| ASAL                                          | --                                        | --       |
| BL                                            | --                                        | --       |
| OAL                                           | --                                        | --       |
| Amercoat Mexicana                             | N/A                                       | --       |

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

## Note 6. Net Income Per Share

Basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods presented. Diluted net income per share is computed on the basis of the weighted-average number of common shares outstanding plus the effect of outstanding stock options and restricted stock, using the treasury stock method. Due to the net loss, no outstanding common stock equivalents, options to purchase 233,260 common shares, were dilutive for the three months ended February 29, 2004. For the three months ended February 28, 2003, options to purchase 163,000 common shares were anti-dilutive. Following is a reconciliation of the weighted-average number of shares used in the computation of basic and diluted net income per share:

|                                                | Three Months Ended<br>February 29 and 28, |           |
|------------------------------------------------|-------------------------------------------|-----------|
|                                                | 2004                                      | 2003      |
| Basic Average Common<br>Shares Outstanding     | 8,163,420                                 | 7,827,540 |
| Dilutive Effect of<br>Common Stock Equivalents | --                                        | 198,656   |
| Diluted Average Common<br>Shares Outstanding   | 8,163,420                                 | 8,026,196 |

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The Company declared a two-for-one stock split in the form of a stock dividend, payable May 27, 2003. The share and per share information herein is reflected on a post-split basis.

### Note 7. Comprehensive Income

Comprehensive income was computed as follows:

|                                            | Three Months Ended<br>February 29 and 28, |          |
|--------------------------------------------|-------------------------------------------|----------|
|                                            | 2004                                      | 2003     |
| Net (Loss)/Income                          | \$ (2,753)                                | \$ 2,175 |
| Foreign Currency Translation<br>Adjustment | 5,260                                     | 4,672    |
| Comprehensive Income from Joint Venture    | 378                                       | 926      |
| Comprehensive Income                       | \$ 2,885                                  | \$ 7,773 |

### Note 8. Debt

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

|                                                                                                                           | February 29,<br>2004 | November 30,<br>2003 |
|---------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Fixed-rate notes payable, bearing<br>interest at 7.92%, in annual principal<br>installments of \$8,333                    | \$ 25,000            | \$ 25,000            |
| Fixed-rate notes payable, bearing<br>interest at 5.36%, in annual principal<br>installments of \$10,000 beginning in 2005 | 50,000               | 50,000               |
| Variable-rate industrial development bonds,<br>payable in 2016 (1.02% at February 29, 2004)                               | 7,200                | 7,200                |
| Variable-rate industrial development bonds,<br>payable in 2021 (1.17% at February 29, 2004)                               | 8,500                | 8,500                |
| Variable-rate bank revolving credit<br>facilities, payable in 2006 (5.29% at February 29, 2004)                           | 5,905                | 3,677                |
| Total long-term debt                                                                                                      | 96,605               | 94,377               |
| Less current portion                                                                                                      | (8,333)              | (8,333)              |
| Long-term debt, less current portion                                                                                      | \$ 88,272            | \$ 86,044            |

The Company borrows under a \$100,000 revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until January 2006, when all borrowings under the Revolver must be repaid. The lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Revolver, the

5.36% term notes and the 7.92% term notes are collateralized by substantially all of the Company's assets. The industrial revenue bonds are supported by standby letters of credit that are issued under the Revolver. Certain note agreements contain provisions regarding the Company's ability to grant security interests or liens in association with other debt instruments. If the Company grants such a security interest or lien, then such notes will be collateralized equally and ratably as long as such other debt shall be collateralized.

### Note 9. Segment Information

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The Company provides certain information about operating segments in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, the Company has determined that it has four operating segments: Performance Coatings & Finishes, Fiberglass-Composite Pipe, Water Transmission, and Infrastructure Products. Each of these segments has a dedicated management team and is managed separately, primarily because of differences in products. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Following is information related to each operating segment included in, and in a manner consistent with, internal management reports:

|                                                         | Three Months Ended<br>February 29 and 28, |                      |
|---------------------------------------------------------|-------------------------------------------|----------------------|
|                                                         | 2004                                      | 2003                 |
| Sales                                                   |                                           |                      |
| Performance Coatings & Finishes                         | \$ 44,354                                 | \$ 39,304            |
| Fiberglass-Composite Pipe                               | 27,834                                    | 27,232               |
| Water Transmission                                      | 28,712                                    | 34,365               |
| Infrastructure Products                                 | 28,887                                    | 30,603               |
| Eliminations                                            | (119)                                     | (883)                |
| Total Sales                                             | \$ 129,668                                | \$ 130,621           |
| (Loss)/Income Before Interest<br>and Income Taxes       |                                           |                      |
| Performance Coatings & Finishes                         | \$ (972)                                  | \$ 197               |
| Fiberglass-Composite Pipe                               | 4,244                                     | 4,180                |
| Water Transmission                                      | (63)                                      | 2,376                |
| Infrastructure Products                                 | 1,733                                     | 2,819                |
| Corporate & Unallocated                                 | (7,219)                                   | (4,808)              |
| Total (Loss)/Income Before Interest<br>and Income Taxes | \$ (2,277)                                | \$ 4,764             |
|                                                         |                                           |                      |
|                                                         | February 29,<br>2004                      | November 30,<br>2003 |
| Assets                                                  |                                           |                      |
| Performance Coatings & Finishes                         | \$ 167,338                                | \$ 164,399           |
| Fiberglass-Composite Pipe                               | 150,625                                   | 147,326              |
| Water Transmission                                      | 113,539                                   | 125,501              |
| Infrastructure Products                                 | 67,869                                    | 70,202               |
| Corporate & Unallocated                                 | 198,718                                   | 184,839              |
| Eliminations                                            | (170,292)                                 | (158,775)            |
| Total Assets                                            | \$ 527,797                                | \$ 533,492           |

### Note 10. Commitments & Contingencies

The Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of February 29, 2004, the Company was a defendant in asbestos-related cases involving 18,489 claimants, compared to 17,447 claimants as of November 30, 2003. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 29, 2004, there were new claims involving 1,077 claimants, dismissals and/or settlements involving 35 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 29, 2004 in connection with asbestos-related claims were approximately \$61.

The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The Company continues to vigorously defend all such lawsuits. As of February 29, 2004, the Company was a defendant in silica-related cases involving 6,846 claimants, compared to 6,847 claimants as of November 30, 2003. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 29, 2004, there were no new claims, dismissals and/or settlements involving 1 claimant and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 29, 2004 in connection with silica-related claims were approximately \$32.

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 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 subject to federal, state and local laws and regulations concerning the environment and is currently participating in administrative proceedings at several sites under these laws. While the Company finds it difficult to estimate with any certainty the total cost of remediation at the several sites, on the basis of currently available information and reserves provided, the Company believes that the outcome of such environmental regulatory proceedings will not have a material effect on the Company's financial position or its results of operations.

#### Note 11. Product Warranties and Guarantees

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

Changes in the product warranty accrual for the three months ended February 29, 2004 were as follows:

|                                                             |          |
|-------------------------------------------------------------|----------|
| Balance, Beginning of Period                                | \$ 3,770 |
| Payments                                                    | (443)    |
| Change in Liability for Warranties Issued During the Period | 598      |
|                                                             | -----    |
| Balance, End of Period                                      | \$ 3,925 |
|                                                             | =====    |

#### Note 12. Goodwill and Other Intangible Assets

During 2003, the Company completed the required transitional goodwill and intangible asset impairment tests. Annual tests were completed during the quarter ended February 29, 2004. No impairment losses were identified as a result of these tests. Changes in the Company's carrying amount of goodwill by business segment were as follows:

| Segment                         | November 30, 2003 | Foreign Currency<br>Translation<br>Adjustments | February 29, 2004 |
|---------------------------------|-------------------|------------------------------------------------|-------------------|
| Performance Coatings & Finishes | \$ 11,473         | \$ 360                                         | \$ 11,833         |
| Fiberglass-Composite Pipe       | 1,440             | -                                              | 1,440             |
| Water Transmission              | -                 | -                                              | -                 |
| Infrastructure Products         | 201               | -                                              | 201               |
|                                 | -----             | -----                                          | -----             |
| Total                           | \$ 13,114         | \$ 360                                         | \$ 13,474         |
|                                 | =====             | =====                                          | =====             |

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

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|                        | February 29, 2004          |                             | November 30, 2003          |                             |
|------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|                        | Gross Intangible<br>Assets | Accumulated<br>Amortization | Gross Intangible<br>Assets | Accumulated<br>Amortization |
| Trademarks             | \$ 2,135                   | \$ (2,050)                  | \$ 2,076                   | \$ (1,975)                  |
| Non-Compete Agreements | 2,105                      | (1,837)                     | 2,105                      | (1,795)                     |
| Patents                | 212                        | (212)                       | 212                        | (212)                       |
| Leasehold Interests    | 1,930                      | (1,930)                     | 1,930                      | (1,930)                     |
| Total                  | \$ 6,382                   | \$ (6,029)                  | \$ 6,323                   | \$ (5,912)                  |

All of the Company's intangible assets, other than goodwill, are subject to amortization. Amortization expense for the three months ended February 29, 2004 and February 28, 2003 was \$63 and \$94, respectively. At February 29, 2004, estimated future amortization expense was as follows: \$148 for the remaining nine months of 2004, \$170 for 2005, \$30 for 2006 and \$5 for 2007.

### Note 13. Incentive Stock Compensation Plans

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

|                                                                                                                   | Three Months Ended<br>February 29 and 28, |          |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------|
|                                                                                                                   | 2004                                      | 2003     |
| Reported Net (Loss)/Income                                                                                        | \$ (2,753)                                | \$ 2,175 |
| Add/(Deduct): Stock-based employee compensation expense/<br>(benefit) included in reported net income, net of tax | 553                                       | (148)    |
| Deduct: Stock-based employee compensation<br>expense determined under SFAS No. 123,<br><br>net of tax             | (177)                                     | (205)    |
| Pro Forma Net (Loss)/Income                                                                                       | \$ (2,377)                                | \$ 1,822 |
| Basic Net (Loss)/Income Per Share:                                                                                |                                           |          |
| As Reported                                                                                                       | \$ (.34)                                  | \$ .28   |
| Pro Forma                                                                                                         | \$ (.29)                                  | \$ .23   |
| Diluted Net (Loss)/Income Per Share:                                                                              |                                           |          |

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|             |    |       |    |     |
|-------------|----|-------|----|-----|
| As Reported | \$ | (.34) | \$ | .27 |
| Pro Forma   | \$ | (.29) | \$ | .23 |

## **Note 14. Employee Benefit Plans**

For the quarter ended February 29, 2004 and February 28, 2003, net pension and postretirement costs were comprised of the following:

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|                                  | Pension Benefits                       |          |                |        | U.S. Postretirement | Health Care |
|----------------------------------|----------------------------------------|----------|----------------|--------|---------------------|-------------|
|                                  | U.S. Plans                             |          | Non U.S. Plans |        |                     |             |
|                                  | Three Months Ended February 29 and 28, |          |                |        |                     |             |
|                                  | 2004                                   | 2003     | 2004           | 2003   | 2004                |             |
| Service cost                     | \$ 862                                 | \$ 713   | \$ 202         | \$ 193 | \$ 28               | \$          |
| Interest cost                    | 2,723                                  | 2,662    | 297            | 313    | 50                  |             |
| Expected return on plan assets   | (2,629)                                | (2,380)  | (224)          | (292)  | (8)                 |             |
| Amortization of unrecognized     |                                        |          |                |        |                     |             |
| prior service cost               | 217                                    | 231      | 106            | 145    | (4)                 |             |
| Amortization of unrecognized     |                                        |          |                |        |                     |             |
| net transition obligation        | --                                     | --       | --             | --     | 18                  |             |
| Amortization of accumulated loss | 1,538                                  | 1,345    | --             | --     | 12                  |             |
| Net periodic cost                | \$ 2,711                               | \$ 2,571 | \$ 381         | \$ 359 | \$ 96               | \$          |

The Company's policy is to make pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company expects to contribute \$3,547 to the U.S. pension plans by August 15, 2004, and also expects to contribute \$1,105 each quarter beginning March 15, 2004.

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

**Ameron International Corporation and Subsidiaries  
February 29, 2004**

**INTRODUCTION**

Ameron International Corporation ("Ameron" or the "Company") is a multinational manufacturer of highly-engineered products and materials for the chemical, industrial, energy, transportation and infrastructure markets. Ameron is a leading producer of water transmission lines; high-performance coatings and finishes for the protection of metals and structures; fiberglass-composite pipe for transporting oil, chemicals and corrosive fluids and specialized materials and products used in infrastructure projects. The Company operates businesses in North America, South America, Europe, Australasia and Asia. The Company has four operating segments. The Performance Coatings & Finishes Group manufactures and markets high-performance industrial and marine coatings. The Fiberglass-Composite Pipe Group manufactures and markets filament-wound and molded composite fiberglass pipe, tubing, fittings and well screens. The Water Transmission Group manufactures and supplies concrete and steel pressure pipe, concrete non-pressure pipe, protective linings for pipe, and fabricated steel products. The Infrastructure Products Group manufactures and sells ready-mix concrete, sand and aggregates, concrete pipe and culverts, and concrete and steel lighting and traffic poles. The markets served by the Performance Coatings & Finishes Group and the Fiberglass-Composite Pipe Group are worldwide in scope. The Water Transmission Group serves primarily the western U.S. The Infrastructure Products Group's quarry and ready-mix business operates exclusively in Hawaii, and poles are sold throughout the U.S. Ameron also participates in several joint-venture companies, directly in the U.S., and Saudi Arabia, and indirectly in Kuwait and Egypt.

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2003 Annual Report. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's Discussion and Analysis of Liquidity and Capital Resources and Results of Operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The following critical accounting policies and estimates affect the preparation of the Company's consolidated financial statements.

The Company's significant accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements in the Company's 2003 Annual Report. Management believes the following accounting policies affect the more significant estimates used in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss. The Company advances funds to certain foreign subsidiaries that are not expected to be repaid in the foreseeable future. Translation adjustments arising from these advances are also included in accumulated other comprehensive loss. The timing of repayments of intercompany advances could materially impact the Company's consolidated financial statements. Additionally, earnings of foreign subsidiaries are often reinvested outside the U.S. Unforeseen repatriation of such earnings could result in significant unrecognized U.S. tax liability. Gains or losses resulting from foreign currency transactions are included in other income.

Revenue for the Performance Coatings & Finishes, Fiberglass-Composite Pipe and Infrastructure Products segments is recognized when risk of ownership and title pass, primarily at the time goods are shipped, provided that an agreement exists between the customer and the Company, the price is fixed or determinable and collection is reasonably assured. In limited circumstances within the Performance Coatings & Finishes Group,

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revenue recognition associated with shipment of coatings for marine dry dockings is delayed until product returns are processed. Revenue is recognized for the Water Transmission Group primarily under the percentage-of-completion method, typically based on completed units of production, since products manufactured under enforceable and binding construction contracts typically are designed for specific applications, are not interchangeable between projects, and are not manufactured for stock. In some cases, if products are manufactured for stock or are not related to specific construction contracts, revenue is recognized under the same criteria used by the other three segments. Revenue under the percentage-of-completion method is subject to a greater level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted periodically to reflect current expectations.

The Company expenses environmental clean-up costs related to existing conditions resulting from past or current operations on a site-by-site basis. Liabilities and costs associated with these matters, as well as other pending litigation and asserted claims arising in the ordinary course of business, require estimates of future costs and judgments based on the knowledge and experience of management and its legal counsel. When estimates of the Company's exposure can be reasonably estimated and probable, liabilities and expenses are recorded. The ultimate resolution of any such exposure to the Company may differ due to subsequent developments.

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out (FIFO) method. Certain steel inventories used by the Water Transmission Group are valued using the last-in, first-out (LIFO) method. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. A significant reduction in demand or significant worsening of customer credit quality could materially impact the Company's consolidated financial statements. Property, plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally three to 40 years.

Investments in unconsolidated joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Investments in joint ventures over which the Company does not have the ability to exert significant influence over the investee's operating and financing activities are accounted for under the cost method of accounting. The Company's investment in TAMCO is accounted for under the equity method. Investments in Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the estimated future, undiscounted cash flows from the use of an asset are less than its carrying value, a write-down is recorded to reduce the related assets to estimated fair value.

The Company is self insured for a portion of the losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using historical experience and certain actuarial assumptions followed in the insurance industry. The estimate of self insurance liability includes an estimate of incurred but not reported claims, based on data compiled from historical experience. Actual experience could differ significantly from these estimates and could materially impact the Company's consolidated financial statements.

The Company follows the guidance of Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for pension and other postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets that are controlled and invested by third-party fiduciaries. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. Such delayed recognition provides a gradual recognition of benefit obligations and investment performance over the working lives of the employees who benefit under the plans, based on various assumptions. Assumed discount rates are used to calculate the present values of benefit payments which are projected to be made in the future, including projections of increases in employee's annual compensation and health care costs. Management also projects the future return on invested assets based principally on prior performance. These projected returns reduce the net benefit costs the Company records in the current period. Management consults with its actuaries when determining these assumptions. Unforecasted program changes, including termination, freezing of benefits or acceleration of benefits, could result in an immediate recognition of unrecognized benefit obligations; and such recognition could materially impact the Company's consolidated financial statements.

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

Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the

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differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. Quarterly income taxes are estimated based on the mix of income by jurisdiction forecasted for the full fiscal year. The Company believes that it has adequately provided for tax-related matters. The Company is subject to examination by taxing authorities in various jurisdictions. Matters raised upon audit may involve substantial amounts and could be material. Management considers it unlikely that resolution of any such matters would have a material adverse effect upon the Company's consolidated financial statements.

### LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2004, the Company generated cash from operating activities of \$6.7 million, compared to \$12.9 million in the same period in 2003. The lower operating cash flow in 2004 was primarily due to lower earnings and reduced current liabilities, partially offset by lower current assets, principally receivables. Receivables decreased in the first quarter of 2004 due to the timing of collections. Operating liabilities decreased due to payments of employee benefits and income taxes.

Net cash used in investing activities totaled \$2.9 million in the first quarter of 2004, compared to \$3.7 million in the same period in 2003. In 2004, net cash used in investing activities consisted of proceeds from the sale of assets of \$.1 million, offset by capital expenditures of \$3.0 million. Capital expenditures were primarily for normal replacement and upgrades of machinery and equipment. During the fiscal year ending November 30, 2004, the Company anticipates spending between \$20 and \$30 million on capital expenditures. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash provided by financing activities was \$.3 million during the first quarter of 2004, compared to \$7.0 million used in the same period in 2003. The net cash provided by financing activities in 2004 consisted of debt issuance of \$2.2 million, payment of common stock dividends totaling \$1.6 million, and treasury stock purchases of \$.3 million.

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

The lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Company is required to maintain consolidated net worth of \$181.5 million plus 50% of net income and 75% of proceeds from any equity issued after January 24, 2003. The Company's consolidated net worth exceeded the covenant amount by \$70.6 million as of February 29, 2004. The Company is required to maintain a consolidated leverage ratio of consolidated funded indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") of no more than 3 times. As of February 29, 2004, the Company maintained a debt leverage ratio of 1.57 times EBITDA. The Revolver and the notes payable require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. As of February 29, 2004, qualifying tangible assets equaled 1.70 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA, rental expense and cash taxes must be at least 1.5 times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. As of February 29, 2004, the Company maintained a ratio of 2.82 times.

Cash and cash equivalents at February 29, 2004 totaled \$24.9 million, an increase of \$4.5 million from November 30, 2003. At February 29, 2004, the Company had total debt outstanding of \$96.8 million and approximately \$103 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing and the average borrowing level during 2004 were \$96.8 million and \$96.1 million, respectively.

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2004. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as loss of customers or significant raw material price increases. Management does not believe it likely that business or economic conditions will worsen or that costs will increase sufficiently to impact short-term liquidity.

The Company's contractual obligations and commercial commitments at February 29, 2004 are summarized as follows (in thousands):

| Contractual Obligations           | Payments Due by Period |                     |                |                |                  |
|-----------------------------------|------------------------|---------------------|----------------|----------------|------------------|
|                                   | Total                  | Less than<br>1 year | 1 - 3<br>years | 3 - 5<br>years | After 5<br>years |
| Long-Term Debt (a)                | \$ 96,605              | \$ 8,333            | \$ 42,572      | \$20,000       | \$25,700         |
| Operating Leases                  | 36,460                 | 4,938               | 6,094          | 4,113          | 21,315           |
| Total Contractual Obligations (b) | \$133,065              | \$ 13,271           | \$ 48,666      | \$24,113       | \$47,015         |

| Commercial Commitments           | Commitments Expiring<br>Per Period |                     |                |                |                  |
|----------------------------------|------------------------------------|---------------------|----------------|----------------|------------------|
|                                  | Total                              | Less than<br>1 year | 1 - 3<br>years | 3 - 5<br>years | After 5<br>years |
| Lines of Credit (a)              | \$ 175                             | \$ 175              | \$ --          | \$ --          | \$ --            |
| Standby Letters of Credit (c)    | 2,153                              | 2,153               | --             | --             | --               |
| Total Commercial Commitments (b) | \$ 2,328                           | \$ 2,328            | \$ --          | \$ --          | \$ --            |

- (a) Included in long-term debt is \$5,505 outstanding under a revolving credit facility, and bank lines supported by the Revolver, due in 2006. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, guarantees, or standby repurchase obligations.
- (c) Not included are standby letters of credit totaling \$16,065 supporting industrial development bonds with a principal of \$15,700. The principal amount of the industrial development bonds is included in long-term debt.

## RESULTS OF OPERATIONS

### General

The Company had a net loss of \$2.8 million, or a loss of \$.34 per diluted share, on sales of \$129.7 million for the quarter ended February 29, 2004, compared to net income of \$2.2 million, or \$.27 per diluted share, on sales of \$130.6 million for the same period in 2003. The Performance Coatings & Finishes and Fiberglass-Composite Pipe Groups had higher sales due to the impact of changing foreign currency rates, while the Water Transmission and Infrastructure Products Groups had lower sales as a result of labor disputes during the quarter and severe weather conditions in Hawaii. All operating segments, except for the Fiberglass-Composite Pipe Group, had lower segment income. The decrease in earnings resulted from lower sales, lower gross profits, and higher selling, general and administrative expenses, partially offset by higher equity in earnings of joint venture and income tax benefits.

### Sales

Sales decreased \$.9 million during the first quarter of 2004, compared to the same period in 2003. Sales decreased primarily due to the impact of weather in Hawaii and strikes that took place in California and Hawaii that adversely impacted the Water Transmission and Infrastructure Products Groups, partially offset by higher sales by the Performance Coatings & Finishes Group due principally to favorable exchange rates.

Performance Coatings & Finishes' sales increased \$5.1 million in the first quarter of 2004, compared to the first quarter of 2003, due principally to the appreciation of foreign currencies relative to the U.S. dollar. Sales in local currencies by operations outside the U.S. were slightly higher, while sales in the U.S. were lower due to weather conditions affecting industrial and offshore markets. Sales of protective coatings in the U.S. also declined due to continued sluggishness in U.S. chemical, industrial and marine markets caused by general economic conditions. European operations benefited from demand in the Middle East, Africa and countries of the former Soviet Union. Future improvements by the group remain dependent on increased spending in worldwide industrial, marine and offshore markets, which appear to be strengthening. The outlook for the Performance Coatings & Finishes Group remains positive.

Fiberglass-Composite Pipe's sales increased \$.6 million due to the impact of favorable foreign exchange rates. Industrial and onshore oilfield tubing sales by U.S. operations increased. Sales into European industrial markets were flat, and sales by Asian operations were lower due to the timing of projects. High oil prices continue to support demand for oilfield tubing and piping for marine and offshore applications. The Asian

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marine and offshore market remains robust. The outlook for the Fiberglass-Composite Pipe Group continues to be positive and improving.

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The Water Transmission Group's sales decreased \$5.7 million during the first quarter of 2004 due to labor disputes at two plants in Southern California. As previously announced, in early February, workers at two of the Water Transmission Group's plants struck over disagreements related to wages, pensions and medical benefits. Agreement was reached with workers at one of the plants at the end of February. Negotiations continue with workers at the second plant. Sales of protective lining products for sewer pipe also declined due to a cyclical slowdown in the waste water market and competition from alternative products. Revenue is recognized in the Water Transmission Group primarily under the percentage of completion method and is subject to a certain level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted when actual results are expected to significantly differ from those estimates. The market for concrete and steel-pressure pipe in the western U.S. remains soft. Even though the business may be able to make up much of the revenue lost in the first quarter due to the strikes, full-year results may be below the unusually high levels of the last several years. Longer term, the outlook remains positive.

Infrastructure Products' sales decreased by \$1.7 million as a result of a labor dispute and wet weather conditions in Hawaii. Early in the quarter, unseasonably wet weather severely hampered Hawaiian operations; and, in early February, as previously reported, workers struck most of Ameron's aggregate and ready-mix concrete operations on Oahu. Negotiations with the union continue. Pole sales improved as housing construction remained robust throughout the U.S. due to low interest rates. The outlook for the Infrastructure Products Group remains favorable.

### **Gross Profit**

Gross profit in the first quarter of 2004 was \$29.9 million, or 23.1% of sales, compared to \$32.7 million, or 25.0% of sales, in the same period in 2003. Gross profit decreased \$2.7 million due to lower margins and lower plant utilization.

Gross profit of the Performance Coatings & Finishes Group was flat in the first quarter of 2004 even though sales increased, compared to the same period in 2003. Profit margins were impacted as the weak dollar lowered profits on sales by European operations into dollar-based markets in the Middle East, Eastern Europe and Russia, and manufacturing costs increased in the U.S.

The Fiberglass-Composite Pipe Group's gross profit increased \$.7 million in the first quarter of 2004, compared to the same period in 2003. The increase was due primarily to lower raw material costs and improved plant utilization.

Gross profit of the Water Transmission Group decreased \$2.7 million in the first quarter of 2004, compared to the same period in 2003. The decrease was due primarily to lower sales and lower plant utilization as a result of the strikes and higher workers' compensation costs.

The Infrastructure Products Group's gross profit decreased \$.9 million in the first quarter of 2004, compared to the same period in 2003. The decrease was due primarily to weather and the labor dispute in Hawaii which reduced profits on lower sales and reduced plant efficiencies.

### **Selling, General and Administration Expenses**

Selling, general and administrative ("SG&A") expenses totaled \$33.3 million, or 25.7% of sales, in the first quarter of 2004, compared to \$28.6 million, or 21.9%, in the same period in 2003. The \$4.7 million increase was due to higher stock compensation expense of approximately \$1.0 million, higher insurance and pension costs of nearly \$1.0 million, and higher marketing expenses of \$.3 million. SG&A was also \$1.4 million higher as costs of foreign operations translated into higher U.S. dollars due to exchange rates. Additionally in 2003, SG&A included a recovery of roughly \$1.0 million, representing amounts agreed to be reimbursed to the Company by its own and a supplier's insurance companies for past legal fees and costs in excess of the negotiated settlement of the Central Arizona Project lawsuits.

### **Equity in Earnings of Joint Venture and Other Income**

Equity in earnings of joint venture increased to \$.5 million in the first quarter of 2004 from a loss of \$.2 million in the same period in 2003. Equity income increased due to TAMCO, Ameron's 50%-owned mini-mill in California. Ameron's equity in TAMCO's earnings increased as TAMCO benefited from the strong demand for rebar in the western U.S. and higher prices fueled by demand in China for steel products.

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Other income included royalties and fees from licensees, foreign currency transaction losses, and other miscellaneous income. Other income decreased to \$.6 million in the first quarter of 2004 from \$.9 million in the same period in 2003 primarily due to foreign exchange transaction losses.

### **Interest**

Interest expense totaled \$1.8 million in 2004, compared to \$1.5 million in 2003. The increase reflected the higher-interest, fixed-rate notes placed in 2003.

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### **Provision for Income Taxes**

The provision for income taxes in 2004 was a benefit of \$1.3 million, compared to an expense of \$1.1 million in 2003. The effective tax rate decreased to 32% in 2004 from 34% in 2003. The effective tax rate was lower due to lower anticipated earnings from domestic operations. Income from certain foreign operations and joint ventures is taxed at rates that are 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 2003 Annual Report.

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

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of February 29, 2004 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 February 29, 2004.

### ***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 asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of February 29, 2004, the Company was a defendant in asbestos-related cases involving 18,489 claimants, compared to 17,447

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claimants as of November 30, 2003. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 29, 2004, there were new claims involving 1,077 claimants, dismissals and/or settlements involving 35 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 29, 2004 in connection with asbestos-related claims were less than \$.1 million.

The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The Company continues to vigorously defend all such lawsuits. As of February 29, 2004, the Company was a defendant in silica-related cases involving 6,846 claimants, compared to 6,847 claimants as of November 30, 2003. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 29, 2004, there were no new claims, dismissals and/or settlements involving 1 claimant and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 29, 2004 in connection with silica-related claims were less than \$.1 million.

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### Item 2. Changes in Securities

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$14.9 million of consolidated retained earnings were not restricted at February 29, 2004.

#### ISSUER PURCHASES OF EQUITY SECURITIES

| Period                   | (a)<br>Total<br>Number of<br>Shares (or<br>Units)<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share (or<br>Unit | (c)<br>Number of<br>Shares (or<br>Units)<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of<br>Shares (or<br>Units) that<br>May Yet Be<br>Purchased<br>under<br>the Plans or<br>Programs |
|--------------------------|----------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12/1/03 thru<br>12/31/03 | --                                                             | N/A                                                      |                                                                                                                      |                                                                                                                                                                 |
| 1/1/04 thru 1/31/04      | 6,860*                                                         | --                                                       |                                                                                                                      |                                                                                                                                                                 |
| 2/1/04 thru 2/29/04      | --                                                             |                                                          |                                                                                                                      |                                                                                                                                                                 |

\*Represents shares repurchased by the Company from certain restricted stock recipients to pay taxes applicable to their restricted stock.

\*\*Shares may be repurchased by the Company in January 2005 and 2006 to pay taxes applicable to the vesting of employee's restricted stock. However, because neither the amount of such taxes nor the share price on the date of such repurchases are known at this time, it is not possible to estimate the numbers of such shares that would be so repurchased.

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

A Form 8-K was filed on January 22, 2004 to report the Company's financial results for the year ended November 30, 2003, as reported in a press release dated January 22, 2004.

A Form 8-K was filed on February 12, 2004 to report the Company's labor disputes with portions of two of its domestic operations, as reported in a press release dated February 12, 2004.

(31.1) Section 302 Certification of Chief Executive Officer

(31.2) Section 302 Certification of Chief Executive Officer

(32) Section 906 Certification of Chief Executive Officer and Chief Financial Officer\*

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

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**Signature Page**

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

Corporation

Ameron International

March 26, 2004

Date:

By: /s/ Gary Wagner

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Gary Wagner  
Senior Vice President, Chief Financial Officer

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;

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2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

March 26, 2004

/s/ James S. Marlen

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

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

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

March 26, 2004

/s/ Gary Wagner

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Gary Wagner  
Senior Vice President, Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. ss.1350, AS  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002\*

In connection with the Quarterly Report on Form 10-Q of Ameron International Corporation (the "Company") for the fiscal quarter ended February 29, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Marlen, Chairman of the Board, President and Chief Executive Officer of the Company and I, Gary Wagner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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