

AMERON INTERNATIONAL CORP
Form 10-Q
March 25, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2002

or

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

For the transition period from _____ to _____

Commission File No. 1 - 9102

AMERON INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of

incorporation or organization)

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

(626) 683-4000

(Registrant's telephone number, including area code)

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

The number of shares outstanding of Common Stock, \$2.50 par value, was 3,873,007 on March 22, 2002. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION

INDEX

Page

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	
	Consolidated Statements of Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Market Risk Disclosure	12

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	13
Item 2.	Changes in Securities	13
Item 6.	Exhibits and Reports on Form 8-K	13

SIGNATURE PAGE		14
----------------	--	----

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 February 28,	
	2002	2001
Sales	\$ 120,702	\$ 121,605
Cost of Sales	(90,263)	(91,706)
Gross Profit	30,439	29,899
Selling, General and Administrative Expenses	(27,238)	(26,498)
Equity in Earnings of Joint Ventures	814	999
Other Income, Net	977	809
Income before Interest and Income Taxes	4,992	5,209
Interest Income	18	53
Interest Expense	(2,406)	(3,068)
Income before Income Taxes	2,604	2,194
Provision for Income Taxes	(833)	(614)
Net Income	\$ 1,771	\$ 1,580
Net Income per Share (Basic)	\$ 0.46	\$ 0.41
Net Income per Share (Diluted)	\$ 0.43	\$ 0.41
Weighted Average Shares (Basic)	3,873,007	3,869,357
Weighted Average Shares (Diluted)	4,139,386	3,893,968
Cash Dividends per Share	\$.32	\$.32

See accompanying notes to consolidated financial statements.

3

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

	February 28, 2002 (Unaudited)	November 30, 2001
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 13,931	\$ 11,315
Receivables, Less Allowances of \$6,861 in 2002 and \$6,699 in 2001	129,269	135,963
Inventories	91,719	92,534
Deferred Income Taxes	19,242	19,242
Prepaid Expenses and Other Current Assets	8,947	6,654
	-----	-----
Total Current Assets	263,108	265,708
Investments, Advances and Equity in Undistributed Earnings of Joint Ventures	18,787	18,780
Property, Plant and Equipment, Net	143,616	145,801
Intangible assets, Net of Accumulated Amortization of \$7,726 in 2002 and \$7,623 in 2001	12,964	13,158
Other Assets	42,331	41,633
	-----	-----
Total Assets	\$ 480,806	\$ 485,080
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ 1,379	\$ 4,080
Current Portion of Long-Term Debt	8,461	8,597
Trade Payables	43,337	46,703
Accrued Liabilities	40,692	47,486
Income Taxes Payable	4,711	2,352
	-----	-----
Total Current Liabilities	98,580	109,218
Long-Term Debt, Less Current Portion	142,384	137,197
Other Long-Term Liabilities	34,708	34,418
	-----	-----
Total Liabilities	275,672	280,833
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 3,873,007 Shares in 2002 and 2001, Net of Treasury Shares	13,017	13,017
Additional Paid-In Capital	20,346	19,457
Retained Earnings	247,938	247,406
Accumulated Other Comprehensive Loss	(27,508)	(26,974)
Treasury Stock (1,333,655 Shares in 2002 and 2001)	(48,659)	(48,659)

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Total Stockholders' Equity	----- 205,134 -----	----- 204,247 -----
Total Liabilities and Stockholders' Equity	\$ 480,806 =====	\$ 485,080 =====

See accompanying notes to consolidated financial statements.

4

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

	Three Months Ended February 28,	
	2002	2001
	-----	-----
Cash Flows from Operating Activities		
Net Income	\$ 1,771	\$ 1,580
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	4,408	4,375
Amortization	173	198
Provision for Deferred Income Taxes	88	113
Equity in Earnings of Joint Ventures	(814)	(999)
Dividends from Joint Ventures	825	1,368
(Gain)/Loss on Sale of Assets	(34)	56
Stock Compensation Expense	889	675
Changes in Operating Assets and Liabilities:		
Receivables	6,013	18,219
Inventories	984	(5,424)
Prepaid Expenses and Other Current Assets	(2,348)	(1,315)
Other Assets	(698)	(1,863)
Trade Payables	(3,027)	(1,342)
Other Current Liabilities	(4,411)	(7,325)
Other Long-Term Liabilities	214	831
	-----	-----
Net Cash Provided by Operating Activities	4,033	9,147
	-----	-----
Cash Flows from Investing Activities		
Proceeds from Sale of Property, Plant and Equipment	134	109
Additions to Property, Plant and Equipment	(2,825)	(6,950)
	-----	-----
Net Cash Used in Investing Activities	(2,691)	(6,841)
	-----	-----
Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	(2,861)	(402)
Issuance of Debt	5,570	2,418
Repayment of Debt, Net	(130)	(1,900)

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Dividends on Common Stock	(1,239)	(1,238)
	-----	-----
Net Cash Provided By (Used in)		
Financing Activities	1,340	(1,122)
	-----	-----
Effect of Exchange Rate Changes		
on Cash and Cash Equivalents	(66)	226
	-----	-----
Net Change in Cash and Cash Equivalents	2,616	1,410
Cash and Cash Equivalents at Beginning of Period	11,315	11,514
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 13,931	\$ 12,924
	=====	=====

See accompanying notes to consolidated financial statements.

5

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

Note 1. Basis Of Presentation

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation and all wholly-owned subsidiaries (the "Company" or "Ameron") at February 28, 2002, and its consolidated results of operations and cash flows for the three months ended February 28, 2002 and 2001. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

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

Note 2. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued two new pronouncements: SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS No. 141 will have a material impact on its financial statements.

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

SFAS No. 143, "Accounting for Asset Retirement Obligations," which becomes effective for the Company on December 1, 2002, addresses the obligations and asset retirement costs associated with the retirement of tangible long-lived assets. It requires that the fair value of the liability for

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

an asset retirement obligation be recorded when incurred. The asset retirement costs must be capitalized as part of the carrying value of the long-lived asset. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The Company is currently assessing the impact of adopting SFAS No. 143.

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

6

Note 3. Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market. Inventories were comprised of the following:

	February 28, 2002	November 30, 2001
	-----	-----
Finished Products	\$ 58,528	\$ 58,397
Products in Process	13,097	12,053
Materials and Supplies	20,094	22,084
	-----	-----
	\$ 91,719	\$ 92,534
	=====	=====

Note 4. Supplemental Disclosure of Cash Flow Information

	Three Months Ended February 28,	
	2002	2001
	-----	-----
Interest Paid	\$ 2,903	\$ 3,581
Income Taxes (Refunded) Paid	\$ (1,577)	\$ 608

Note 5. Joint Ventures

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

	Three Months Ended February 28,	
	2002	2001
	-----	-----
Net Sales	\$ 51,729	\$ 52,930
Gross Profit	\$ 14,927	\$ 15,571
Net Income	\$ 7,305	\$ 6,718

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Amounts shown above include the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three months ended December 31, 2001 and 2000 and TAMCO for the three months ended February 28, 2002 and 2001. Ameron's equity in earnings of joint ventures is included in other income.

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 other common stock equivalents, using the treasury stock method. All outstanding common stock equivalents were dilutive for the three months ended February 28, 2002. For the three months ended February 28, 2001, options to purchase 224,000 common shares were anti-dilutive.

7

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

	Three Months Ended February 28,	
	2002	2001
Basic Average Common Shares Outstanding	3,873,007	3,869,357
Dilutive Effect of Common Stock Equivalents	266,379	24,611
Diluted Average Common Shares Outstanding	4,139,386	3,893,968

Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended February 28,	
	2002	2001
Net Income	\$ 1,771	\$ 1,580
Foreign Currency Translation Adjustment	(554)	2,238
Comprehensive Income from Joint Venture	20	--
Comprehensive Income	\$ 1,237	\$ 3,818

Note 8. Debt

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

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

	February 28, 2002	November 30, 2001
	-----	-----
Fixed-rate unsecured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 41,666	\$ 41,666
Variable-rate industrial development bonds, Payable in 2016 (1.30% at February 28, 2002)	7,200	7,200
Variable-rate industrial development bonds, Payable in 2021 (1.45% at February 28, 2002)	8,500	8,500
Variable-rate unsecured bank revolving credit facilities (2.45% at February 28, 2002)	90,097	84,910
Variable-rate unsecured bank loan, Payable in 2004 (18.67% at February 28, 2002)	3,254	3,254
Variable-rate unsecured bank loan, payable in Euros, with quarterly principal installments of approximately \$128 (3.97% at February 28, 2002)	128	264
	-----	-----
	150,845	145,794
Less Current portion	(8,461)	(8,597)
	-----	-----
	\$ 142,384	\$ 137,197
	=====	=====

8

Note 9. Segment Information

The Company provides certain information about operating segments in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, the Company has determined that it has four operating segments: Performance Coatings & Finishes, Fiberglass-Composite Pipe, Water Transmission, and Infrastructure Products. Each of these segments has a dedicated management team and is managed separately, primarily because of differences in products. Inter-segment sales were not significant. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Following is information related to each operating segment included in, and in a manner consistent with, internal management reports:

	Three Months Ended February 28,	
	2002	2001
	-----	-----
Sales		
Performance Coatings & Finishes	\$ 38,225	\$ 42,745
Fiberglass-Composite Pipe	21,593	23,692
Water Transmission	33,379	28,098
Infrastructure Products	27,749	27,518
Eliminations	(244)	(448)
	-----	-----
Total Sales	\$ 120,702	\$ 121,605
	=====	=====
Income (Loss) Before Interest and Income Taxes		
Performance Coatings & Finishes	\$ (700)	\$ 104
Fiberglass-Composite Pipe	2,402	2,241
Water Transmission	4,622	3,442
Infrastructure Products	2,976	3,087
Corporate & Unallocated	(4,308)	(3,665)
	-----	-----
Total Income Before Interest		

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

and Income Taxes	\$ 4,992 =====	\$ 5,209 =====
	February 28, 2002 -----	November 30, 2001 -----
Assets		
Performance Coatings & Finishes	\$ 129,306	\$ 133,332
Fiberglass-Composite Pipe	130,687	133,267
Water Transmission	120,156	123,175
Infrastructure Products	67,333	65,518
Corporate & Unallocated	160,173	168,697
Eliminations	(126,849)	(138,909)
	-----	-----
Total Assets	\$ 480,806 =====	\$ 485,080 =====

Note 10. Commitments & Contingencies

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

9

Separately, on September 28, 1995, the Contracting Officer for the USBR issued a final decision claiming for the USBR approximately \$40 million in damages against Kiewit, based in part on the Contracting Officer's finding that the siphons supplied by the Company were defective. That claim amount is considered by the Company to be duplicative of the damages sought by the CAWCD for the repair or replacement of the siphons in its aforementioned action in the U.S. District Court for the District of Arizona. The Contracting Officer's final decision was appealed by Kiewit to the U.S. Department of the Interior Board of Contract Appeals ("IBCA"). The Company is actively cooperating with and assisting Kiewit in the administrative appeal of that final decision before the IBCA. Trial on that appeal commenced in November 2000; however, the proceeding was stayed with the concurrence of the parties pending efforts aimed at a possible settlement of the matter. Settlement efforts involving the USBR, Kiewit, the Company and various insurance carriers are continuing. In the meantime, activity on the IBCA appeal, as well as the aforementioned CAWCD appeal, continues to be suspended.

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

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

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

finds it difficult to estimate with any certainty the total cost of remediation at the several sites, on the basis of currently available information and reserves provided, the Company believes that the outcome of such environmental regulatory proceedings will not have a material effect on the Company's financial position or its results of operations.

The Company is one of numerous defendants in various pending lawsuits brought in the State of Mississippi in the past several months involving 315 individuals alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

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

**Ameron International Corporation and Subsidiaries
February 28, 2002**

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2001 Annual Report on Form 10-K. 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.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended February 28, 2002 the Company generated \$4.0 million of cash from operating activities compared to \$9.1 million for the same period in 2001. The lower operating cash flow in 2002 came principally from lower

10

receivable collections, partially offset by a decreased buildup in inventories.

Net cash of \$2.7 million was used in investing activities for the three months ended February 28, 2002, compared to \$6.8 million used in the same period in 2001. Cash used in investing activities consisted primarily of capital expenditures for normal replacement and upgrades of machinery and equipment. Cash used in investing activities in 2001 also included capital expenditures for a new concrete pole plant in Alabama, which was completed in 2001. Management estimates that capital expenditures during fiscal 2002 will be between \$15.0 million and \$25.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations and additional borrowings.

Net cash provided by financing activities was \$1.3 million in 2002, compared with net cash used of \$1.1 million in 2001. The increase resulted from additional net borrowings of \$2.6 million, which were used to finance operations, for capital expenditures and for payment of common stock dividends of \$1.2 million during the first quarter of 2002.

Cash and cash equivalents at February 28, 2002 totaled \$13.9 million, an increase of \$2.6 million from November 30, 2001. At February 28, 2002 the Company had total debt outstanding of \$152.2 million and approximately \$97.9 million in unused committed and uncommitted credit lines available from foreign and domestic banks.

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2002. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as

loss of customers or significant material price increases.

The Company's contractual obligations and commercial commitments at February 28, 2002 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$150,845	\$ 8,461	\$118,350	\$ 8,334	\$15,700
Operating Leases	42,771	5,014	7,988	4,694	25,075
Total Contractual Obligations (b)	\$193,616	\$13,475	\$126,338	\$13,028	\$40,775

Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Line of Credit (a)	\$ 1,379	\$ 1,379	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	4,893	4,893	--	--	--
Guarantees (d)	4,692	4,692	--	--	--
Total Commercial Commitments (b)	\$10,964	\$10,964	\$ --	\$ --	\$ --

- (a) Included in long-term debt is \$90,097 outstanding under unsecured bank lines supported by a revolving credit facility, due in 2003. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, or standby repurchase obligations.
- (c) Not included are standby letters of credit of \$15,700 supporting industrial development bonds and \$3,254 supporting a bank loan, which are included in long-term debt.
- (d) The Company guarantees bank credit facilities for a joint venture.

RESULTS OF OPERATIONS

Net income totaled \$1.8 million, or 43 cents per diluted share, on sales of \$120.7 million for the first quarter of 2002, compared to earnings of \$1.6 million, or 41 cents per diluted share, on sales of \$121.6 million for the same period in 2001.

11

Net income improved due primarily to lower interest expense and a strong performance by the Water Transmission Group.

Sales of the Water Transmission Group increased \$5.3 million in the first quarter of 2002, compared to the same period of 2001. Sales were higher due to the continued demand for water piping for new developments in California and Arizona. Segment income increased \$1.2 million in the first quarter of 2002, compared to the same period of 2001, as a result of higher sales. 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, costs and profit. Estimates are reviewed on a consistent basis and are adjusted when actual results are expected to significantly differ from those estimates. The outlook for the Water Transmission Group is positive, due to the strong order backlog and increased bidding activity.

Sales of the Company's worldwide Fiberglass-Composite Pipe Group decreased \$2.1 million in the first quarter of 2002, compared to the same period of 2001. Sales decreased because of the continued sluggishness in domestic and Asian industrial and fuel-handling markets, as well as softening in the worldwide oilfield market. Segment income increased by \$.2 million in the first quarter of 2002, compared to the same period of 2001, despite lower sales, due to cost reduction programs and lower raw material costs. The outlook for the Fiberglass-Composite Pipe Group is positive due to recent increases in oil prices which should strengthen the demand for fiberglass pipe.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Sales of the Performance Coatings & Finishes Group decreased \$4.5 million in the first quarter of 2002, compared to the same period of 2001. Sales of high-performance protective coatings declined in both Europe and the U.S. while sales of light-industrial finishes in the U.K., Australia and New Zealand were flat. Segment income decreased \$.8 million in the first quarter of 2002, compared to the same period of 2001, as a result of lower sales. The outlook for the Performance Coatings & Finishes Group is dependent on the timing and strength of the economic recovery.

Sales of the Infrastructure Products Group increased \$.2 million in the first quarter of 2002, compared to the same period of 2001. Segment income decreased by \$.1 million for the first quarter of 2002, compared to the same period of 2001. Hawaiian operations declined slightly due to weather, and sales of pole products increased as low interest rates continued to drive the strong U.S. housing market. The outlook for the Infrastructure Products Group appears to be improving due to the pace of military and residential construction in Hawaii.

The Company's gross profit for the three months ended February 28, 2002 was \$30.4 million, an increase of \$.5 million from 2001, despite a slight decrease in sales. Gross profit margins for the Company as a whole improved slightly in the first quarter of 2002, compared to the same period in 2001. Gross profit margins for the Water Transmission Group improved due to higher capacity utilization. Margins for each of the other segments improved primarily due to changes in mix and lower raw material costs.

Selling, General and Administrative expenses were higher in the first quarter of 2002, compared to the same period of 2001, primarily due to higher insurance and benefit costs.

Interest expense was \$2.4 million for the three months ended February 28, 2002, compared with \$3.1 million for the same period in 2001. The lower interest expense resulted primarily from lower interest rates on the Company's variable-rate debt.

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

Item 3. Quantitative and Qualitative Market Risk Disclosure

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's Annual Report on Form 10-K for the year ended November 30, 2001.

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

12

conditions. Matters affecting the economy generally, including the state of economies worldwide, can affect the Company's results. These forward-looking statements represent the Company's judgment only as of the date of this report. Since actual results could differ materially, the reader is cautioned not to rely on these forward-looking statements. Moreover, the Company disclaims any intent or obligation to update these forward looking statements.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is one of numerous defendants in various pending lawsuits brought in the State of Mississippi in the past several months involving 315 individuals alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that such injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all

asbestos-related lawsuits.

Item 2. Changes in Securities

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$16.8 million of consolidated retained earnings were not restricted at February 28, 2002.

Item 6. Exhibits and Reports on Form 8-K

No form 8-K was filed for the Company in the first quarter of 2002.

Signature Page

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

Ameron International Corporation

Date: March 22, 2002

By: /s/ Gary Wagner

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Gary Wagner

Senior Vice President, Chief Financial Officer