

AMERON INTERNATIONAL CORP  
Form 10-Q  
July 02, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended May 31, 2003

or

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

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

Commission File No. 1 - 9102

**AMERON INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of

incorporation or organization)

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

**(626) 683-4000**

(Registrant's telephone number, including area code)

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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

The number of shares outstanding of Common Stock, \$2.50 par value, was 7,919,024 on May 31, 2003. No other class of Common Stock exists.

1

**AMERON INTERNATIONAL CORPORATION**

**INDEX**

Page

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	
	Consolidated Statements of Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Market Risk Disclosure	17
Item 4.	Controls and Procedures	17

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	17
Item 2.	Changes in Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 6.	Exhibits and Reports on Form 8-K	18
	SIGNATURE PAGE	19
	CERTIFICATIONS	20

**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 May 31,		Six Months Ended May 31,	
	2003	2002	2003	2002
Sales	\$ 147,844	\$ 138,099	\$ 278,465	\$ 258,000
Cost of Sales	(107,527)	(102,535)	(205,483)	(192,000)
Gross Profit	40,317	35,564	72,982	66,000
Selling, General and Administrative Expenses	(31,989)	(28,138)	(60,558)	(55,000)
Equity in Earnings of Joint Ventures	5,027	4,006	4,807	4,000
Other Income, Net	109	1,294	997	2,000
Income before Interest and Income Taxes	13,464	12,726	18,228	17,000
Interest Income	45	67	91	0
Interest Expense	(1,879)	(1,672)	(3,394)	(4,000)
Income before Income Taxes	11,630	11,121	14,925	13,000
Provision for Income Taxes	(3,805)	(3,559)	(4,925)	(4,000)
Net Income	\$ 7,825	\$ 7,562	\$ 10,000	\$ 9,000
Net Income per Share (Basic)	\$ 1.00	\$ .98	\$ 1.28	\$ 1.00
Net Income per Share (Diluted)	\$ .97	\$ .91	\$ 1.24	\$ 1.00
Weighted Average Shares (Basic)	7,849,824	7,748,690	7,838,682	7,747,000
Weighted Average Shares (Diluted)	8,089,951	8,330,256	8,058,074	8,304,000
Cash Dividends per Share	\$ .20	\$ .16	\$ .36	\$ .36

See accompanying notes to consolidated financial statements.

3

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

	May 31, 2003 ( Unaudited )	November 30, 2002
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 16,371	\$ 10,360
Receivables, Less Allowances of \$7,359 in 2003 and \$6,652 in 2002	138,511	131,283
Inventories	91,414	88,020
Deferred Income Taxes	16,528	16,528
Prepaid Expenses and Other Current Assets	10,089	6,671
	-----	-----
Total Current Assets	272,913	252,862
Investments, Advances and Equity in Undistributed Earnings of Joint Ventures	19,670	18,927
Property, Plant and Equipment, Net	149,950	145,242
Intangible Assets, Net of Accumulated Amortization of \$9,402 in 2003 and \$8,551 in 2002	13,313	13,013
Other Assets	37,614	32,898
	-----	-----
Total Assets	\$ 493,460	\$ 462,942
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ --	\$ 1,009
Current Portion of Long-Term Debt	8,333	8,333
Trade Payables	47,669	46,295
Accrued Liabilities	49,691	45,994
Income Taxes Payable	5,428	2,026
	-----	-----
Total Current Liabilities	111,121	103,657
Long-Term Debt, Less Current Portion	99,889	102,823
Other Long-Term Liabilities	51,535	44,636
	-----	-----
Total Liabilities	262,545	251,116
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 7,919,024 Shares in 2003 and 3,945,662 in 2002, Net of Treasury Shares	26,447	13,198
Additional Paid-In Capital	11,444	23,950
Unearned Restricted Stock	(1,822)	(2,164)

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Retained Earnings	277,601	270,449
Accumulated Other Comprehensive Loss	(34,232)	(44,948)
Treasury Stock (2,659,810 Shares in 2003 and 1,333,655 in 2002)	(48,523)	(48,659)
	-----	-----
Total Stockholders' Equity	230,915	211,826
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 493,460	\$ 462,942
	=====	=====

See accompanying notes to consolidated financial statements.

4

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

	Six Months Ended May 31,	
	2003	2002
	-----	-----
Cash Flows from Operating Activities		
Net Income	\$ 10,000	\$ 9,333
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	8,970	8,915
Amortization	140	329
Provision for Deferred Income Taxes	397	1,598
Equity in Earnings of Joint Ventures	(4,807)	(4,820)
Dividends from Joint Ventures	5,243	4,125
Gain from Sale of Property, Plant and Equipment	(23)	(57)
Stock Compensation Expense	676	1,433
Changes in Operating Assets and Liabilities:		
Receivables	(828)	(3,580)
Inventories	(2,274)	3,130
Prepaid Expenses and Other Current Assets	(3,086)	(971)
Other Assets	(3,051)	(214)
Trade Payables	(563)	(8,504)
Accrued Liabilities and Income Taxes Payable	5,572	(4,304)
Other Long-Term Liabilities	6,402	(6,246)
	-----	-----
Net Cash Provided by Operating Activities	22,768	167
	-----	-----
Cash Flows from Investing Activities		
Proceeds from Sale of Property, Plant and Equipment	382	232
Additions to Property, Plant and Equipment	(8,755)	(6,079)
	-----	-----
Net Cash Used in Investing Activities	(8,373)	(5,847)
	-----	-----

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

Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	(1,517)	(3,194)
Issuance of Debt	66,439	7,040
Repayment of Debt	(70,123)	--
Debt Issuance Costs	(1,520)	--
Dividends on Common Stock	(2,848)	(2,491)
Issuance of Common Stock	409	102
Change in Treasury Stock	136	--
	-----	-----
Net Cash (Used in) Provided By Financing Activities	(9,024)	1,457
	-----	-----
Effect of Exchange Rate Changes		
on Cash and Cash Equivalents	640	201
	-----	-----
Net Change in Cash and Cash Equivalents	6,011	(4,022)
Cash and Cash Equivalents at Beginning of Period	10,360	11,315
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 16,371	\$ 7,293
	=====	=====

See accompanying notes to consolidated financial statements.

5

**Ameron International Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(In Thousands Except Share and 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 May 31, 2003, and its consolidated results of operations and cash flows for the three and six months ended May 31, 2003 and 2002. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in Ameron's Annual Report on Form 10-K for the year ended November 30, 2002 ("2002 Annual Report").

**Note 2. New Accounting Pronouncements**

Effective December 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of

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

assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. Upon adoption of SFAS No. 142, the Company ceased amortizing existing goodwill. The Company performed the prescribed transitional goodwill impairment test with respect to existing goodwill and determined that no impairment existed as of December 1, 2002. The Company's disclosures required under SFAS No. 142 are included in Note 12, herein.

Effective December 1, 2002, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses the obligations and retirement costs associated with the retirement of tangible long-lived assets. The standard requires that the fair value of the liability for an asset retirement obligation be recorded when incurred. The asset retirement costs must be capitalized as part of the carrying value of the long-lived asset. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 144, "Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and provides guidance on implementation issues related to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and addresses the accounting for a segment of a business accounted for as a discontinued operation. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 145, "Rescission of Financial Accounting Standards Board ("FASB") Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." In so doing, SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated, and, if material, classified as an extraordinary item, net of the related income tax effect, unless the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transactions are accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of SFAS No. 145 did not have a material impact on the Company's consolidated financial statements.

The Company adopted SFAS No. 146, "Accounting for Exit or Disposal Activities", during the quarter ended February 28, 2003. SFAS No. 146 addresses issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force has set forth in Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit

6

an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's consolidated financial statements.

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

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

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

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

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

### Note 3. Inventories

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

	May 31, 2003	November 30, 2002
	-----	-----
Finished Products	\$ 53,937	\$ 52,359
Materials and Supplies	22,114	20,373
Products in Process	15,363	15,288
	-----	-----
	\$ 91,414	\$ 88,020
	=====	=====

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

	Six Months Ended May 31,	
	-----	-----
	2003	2002
Interest Paid	\$ 3,329	\$ 3,842
Income Taxes Paid	\$ 758	\$ 3,592

### Note 5. Joint Ventures

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

7

	Three Months Ended May 31,		Six Months Ended May 31,	
	-----	-----	-----	-----
	2003	2002	2003	2002
Net Sales	\$ 56,733	\$ 52,105	\$ 103,785	\$ 103,834
Gross Profit	\$ 6,561	\$ 13,476	\$ 13,723	\$ 28,403
Net Income	\$ 3,820	\$ 6,137	\$ 7,607	\$ 13,442

Amounts shown above include the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three and six months ended March 31, 2003 and 2002 and TAMCO for the three and six months ended May 31, 2003 and 2002.

### Note 6. Net Income Per Share



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

Basic net income per share is computed on the basis of the weighted average number of common shares outstanding during the periods presented. Diluted net income per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options and restricted stock, using the treasury stock method. For the three months ended May 31, 2003, options to purchase 21,000 common shares were anti-dilutive, while options to purchase 36,000 common shares were anti-dilutive for the six months ended May 31, 2003. All outstanding common stock equivalents were dilutive for the three months ended May 31, 2002, while options to purchase 21,000 common shares were anti-dilutive for the six months ended May 31, 2002. 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 May 31,		Six Months Ended May 31,	
	2003	2002	2003	2002
Basic Average Common Shares Outstanding	7,849,824	7,748,690	7,838,682	7,747,352
Dilutive Effect of Common Stock Equivalents	240,127	581,566	219,392	557,162
Diluted Average Common Shares Outstanding	8,089,951	8,330,256	8,058,074	8,304,514

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

### Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2003	2002	2003	2002
Net Income	\$ 7,825	\$ 7,562	\$ 10,000	\$ 9,333
Foreign Currency Translation Adjustment	4,867	4,228	9,539	3,674
Comprehensive Income from Joint Venture	251	517	1,177	537
Comprehensive Income	\$ 12,943	\$ 12,307	\$ 20,716	\$ 13,544

### Note 8. Debt

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

	May 31, 2003	November 30, 2002
Fixed-rate secured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 33,333	\$ 33,333
Fixed-rate secured notes payable, bearing interest at 5.36%, in annual principal installments of \$10,000 beginning in 2005	50,000	--
Variable-rate industrial development bonds, payable in 2016 (1.25% at May 31, 2003)	7,200	7,200
Variable-rate industrial development bonds,		

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

payable in 2021 (1.40% at May 31, 2003)	8,500	8,500
Variable-rate secured bank revolving credit facilities; payable in 2006 (2.60% at May 31, 2003)	9,189	--
Variable-rate bank revolving credit facilities	--	62,123
	-----	-----
Total long-term debt	108,222	111,156
Less current portion	(8,333)	(8,333)
	-----	-----
Long-term debt, less current portion	\$ 99,889	\$ 102,823
	=====	=====

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

**Note 9. Segment Information**

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Sales				
Performance Coatings & Finishes	\$ 50,732	\$ 48,691	\$ 90,036	\$ 86,916
Fiberglass-Composite Pipe	27,699	19,633	54,931	41,226
Water Transmission	36,656	40,500	71,021	73,879
Infrastructure Products	32,524	29,551	63,127	57,300
Eliminations	233	(276)	(650)	(520)
	-----	-----	-----	-----
Total Sales	\$ 147,844	\$ 138,099	\$ 278,465	\$ 258,801
	=====	=====	=====	=====
Income (Loss) Before Interest and Income Taxes				
Performance Coatings & Finishes	\$ 3,411	\$ 2,916	\$ 3,608	\$ 2,216
Fiberglass-Composite Pipe	6,913	2,981	11,093	5,383
Water Transmission	6,426	7,381	8,802	12,003
Infrastructure Products	3,758	3,620	6,577	6,596
Corporate & Unallocated	(7,044)	(4,172)	(11,852)	(8,480)
	-----	-----	-----	-----
Total Income Before Interest and Income Taxes	\$ 13,464	\$ 12,726	\$ 18,228	\$ 17,718
	=====	=====	=====	=====

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Assets	-----	-----
Performance Coatings & Finishes	\$ 157,554	\$ 138,616
Fiberglass-Composite Pipe	157,131	138,712
Water Transmission	106,339	115,078
Infrastructure Products	70,908	68,272
Corporate & Unallocated	147,401	140,233
Eliminations	(145,873)	(137,969)
	-----	-----
Total Assets	\$ 493,460	\$ 462,942
	=====	=====

**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.

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 was 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 actively cooperated with and assisted 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 settlement of the entire matter. Settlement efforts were then undertaken, during which the IBCA appeal was suspended.

In January 2003, settlements were finalized among the USBR, Kiewit, the Company and various insurance carriers. The entire matter, including the aforementioned CAWCD claim, was resolved on economic terms that did not result in an adverse material effect on the financial position of the Company or its results of operations. The Company entered into agreements with its own and a supplier's insurance carriers providing for the reimbursement of past legal fees and costs incurred in defense and settlement of this matter which exceeded the negotiated settlement with the USBR by approximately \$.9 million.

As previously reported, the Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to certain products previously manufactured by the Company, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company continues to vigorously defend all such lawsuits. As of May 31, 2003, the Company was a defendant in asbestos-related cases involving 17,426 claimants, compared to 13,135 claimants as of February 28, 2003.

The Company is one of numerous defendants in various pending lawsuits involving, as of May 31, 2003, 5,958 individuals or their representatives alleging personal injury from exposure to silica-containing products. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to certain products previously manufactured by the Company, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its

potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all such lawsuits.

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

10

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

**Note 11. Product Warranties**

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 six months ended May 31, 2003 were as follows:

Balance, Beginning of Period	\$ 4,257
Payments	(1,539)
Change in Liability for Warranties Issued During the Period	1,560
Change in Liability for Preexisting Warranties	-
	-----
Balance, End of Period	\$ 4,278
	=====

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

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

Segment	November 30, 2002	Foreign Currency Translation Adjustments	Impairments	May 31, 2003
-----	-----	-----	-----	-----
Performance Coatings & Finishes Group	\$ 10,701	\$ 448	\$ -	\$ 11,149
Fiberglass-Composite Pipe Group	1,440	-	-	1,440
Water Transmission Group	-	-	-	-
Infrastructure Products Group	201	-	-	201
	-----	-----	-----	-----
Total	\$ 12,342	\$ 448	\$ -	\$ 12,790
	=====	=====	=====	=====

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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended, May 31,		Six Months Ended, May 31,	
	2003	2002	2003	2002
Reported Net Income	\$ 7,825	\$ 7,562	\$ 10,000	\$ 9,333
Goodwill Amortization Expense, net of tax	-	43	-	112
Pro Forma Net Income	\$ 7,825	\$ 7,605	\$ 10,000	\$ 9,445
Basic Net Income Per Share:				
As Reported	\$ 1.00	\$ .98	\$ 1.28	\$ 1.21
Pro Forma	\$ 1.00	\$ .98	\$ 1.28	\$ 1.22
Diluted Net Income Per Share:				
As Reported	\$ .97	\$ .91	\$ 1.24	\$ 1.12
Pro Forma	\$ .97	\$ .91	\$ 1.24	\$ 1.14

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

11

	May 31, 2003		November 30, 2002	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
Trademarks	\$ 2,044	\$ (1,923)	\$ 1,961	\$ (1,800)
Non-Compete Agreements	2,105	(1,703)	2,105	(1,590)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
Total	\$ 6,291	\$ (5,768)	\$ 6,208	\$ (5,532)

All intangible assets are subject to amortization. Amortization expense for the three and six months ended May 31, 2003 was \$46 and \$140, respectively. At May 31, 2003, estimated future amortization expense is as follows: \$139 for the second half of fiscal year 2003, \$302 for fiscal year 2004 and \$82 for fiscal year 2005.

**Note 13. Incentive Stock Compensation Plans**

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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended, May 31,		Six Months Ended, May 31,	
	2003	2002	2003	2002
Reported Net Income	\$ 7,825	\$ 7,562	\$ 10,000	\$ 9,333
Add: Stock-based employee compensation expense included in reported net income, net of tax	606	370	453	974
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(206)	(231)	(403)	(462)
Pro Forma Net Income	\$ 8,225	\$ 7,701	\$ 10,050	\$ 9,845
Basic Net Income Per Share:				
As Reported	\$ 1.00	\$ .98	\$ 1.28	\$ 1.21
Pro Forma	\$ 1.05	\$ .99	\$ 1.28	\$ 1.27
Diluted Net Income Per Share:				
As Reported	\$ .97	\$ .91	\$ 1.24	\$ 1.12
Pro Forma	\$ 1.02	\$ .92	\$ 1.25	\$ 1.19

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

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

**INTRODUCTION**

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2002 Annual Report. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

12

estimates. The following critical accounting policies and estimates affect the preparation of the Company's consolidated financial statements.

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

The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during

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

the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss. The Company advances funds to certain foreign subsidiaries that are not expected to be repaid in the foreseeable future. Translation adjustments arising from these advances are also included in accumulated other comprehensive loss. Accelerated payment of intercompany advances could impact the components of equity on the Company's consolidated balance sheets but would not be expected to impact consolidated income statements. Gains or losses resulting from foreign currency transactions are included in other income.

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

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

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out (FIFO) method. Certain steel inventories used by the Water Transmission Group are valued using the last-in, first-out (LIFO) method. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. A significant reduction in demand or significant worsening of customer credit quality could materially impact the Company's consolidated financial statements. Property, plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally 3 to 40 years.

Investments in joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Reserves are provided when management determines that a portion of the investment or earnings may not be realizable and that such loss in value is other than temporary. Different estimates and assumptions could affect the amount of equity income recognition, which could materially affect the Company's consolidated financial statements.

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

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

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

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

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

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

### LIQUIDITY AND CAPITAL RESOURCES

During the six months ended May 31, 2003, the Company generated \$22.8 million of cash from operating activities compared to \$.2 million generated from operations for the same period in 2002. The higher operating cash flow in 2003 was due to higher income, higher dividends from affiliated companies, and a net increase in operating liabilities partially offset by an increase in operating assets.

Net cash of \$8.4 million was used in investing activities for the six months ended May 31, 2003, compared to \$5.8 million used in the same period in 2002. Cash used in investing activities consisted primarily of capital expenditures for normal replacement and upgrades of machinery and equipment. Additionally, a distribution warehouse was purchased in 2003 for \$1.3 million. Management estimates that capital expenditures during fiscal 2003 will be between \$15.0 and \$25.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash used in financing activities was \$9.0 million in 2003, compared to \$1.5 million provided by financing activities in 2002. The net cash used in 2003 resulted from the net repayment of debt of \$5.2 million, debt issuance costs of \$1.5 million, and \$2.8 million for payment of common stock dividends.

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

Cash and cash equivalents at May 31, 2003 totaled \$16.4 million, an increase of \$6.0 million from November 30, 2002. At May 31, 2003, the Company had total debt outstanding of \$108.2 million and approximately \$103 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing level and the weighted-average borrowing level in the six month period ended May 31, 2003 was \$166.6 million and \$113.8 million, respectively.

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2003. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as loss of customers or significant raw material price increases. Management does not believe it likely that business or economic conditions will worsen or that costs will increase sufficiently to impact short-term liquidity.

On March 26, 2003, the Company's Board of Directors declared a quarterly dividend of \$.20 per share of common stock, payable on May 20, 2003 to stockholders of record on April 24, 2003. The Company's recent historical practice has been to pay dividends on its common stock of \$.16 per quarter (adjusted to reflect the two-for-one stock split completed in May 2003).

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



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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$108,222	\$ 8,333	\$ 26,666	\$37,523	\$35,700
Operating Leases	37,342	4,418	6,346	3,954	22,624
Total Contractual Obligations (b)	\$145,564	\$ 12,751	\$ 33,012	\$41,477	\$58,324
Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Lines of Credit (a)	\$ --	\$ --	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	1,649	1,649	--	--	--
Total Commercial Commitments (b)	\$ 1,649	\$ 1,649	\$ --	\$ --	\$ --

- (a) Included in long-term debt is \$9,189 outstanding under a revolving credit facility, due in 2006, and bank lines supported by the Revolver. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.
- (b) The Company has no capitalized lease obligations, unconditional purchase obligations, guarantees, or standby repurchase obligations.
- (c) Not included are standby letters of credit supporting industrial development bonds that have principal of \$15,700. The principal amount of the industrial development bonds is included in long-term debt.

## RESULTS OF OPERATIONS

### General

Net income totaled \$7.8 million, or \$.97 per diluted share, on sales of \$147.8 million for the quarter ended May 31, 2003, compared to net income of \$7.6 million, or \$.91 per diluted share, on sales of \$138.1 million for the same period in 2002. All operating segments, except Water Transmission, had higher sales and higher segment income. The overall improvement in net income came from higher sales, gross margins and equity income partially offset by higher selling, general and administrative expenses and lower other income.

Net income totaled \$10.0 million, or \$1.24 per diluted share, on sales of \$278.5 million for the six months ended May 31, 2003, compared to net income of \$9.3 million, or \$1.12 per diluted share, on sales of \$258.8 million for the same period in 2002. Higher segment income from the Performance Coatings & Finishes Group and Fiberglass-Composite Pipe Group offset lower segment income from the Water Transmission Group. The overall improvement in net income came from higher sales and gross profits and lower interest expense.

### Sales

Sales increased by \$9.7 million in the second quarter of 2003, compared to the same period in 2002. While all operating segments, except the Water Transmission Group improved, the largest gain came from the Company's Fiberglass-Composite Pipe business. The Fiberglass-Composite Pipe Group benefited from strong demand in Asia for fiberglass piping for construction of offshore oil and marine vessels.

Sales increased by \$19.7 million for the six months ended May 31, 2003, compared to the same period in 2002. All segments but the Water Transmission Group improved, with the largest gains by both the Fiberglass-Composite Pipe Group and the Infrastructure Products Group. The Fiberglass-Composite Pipe Group benefited from strong demand in Asia for fiberglass piping for construction of offshore oil and marine vessels while the Infrastructure Products Group benefited from strong housing and general construction markets.

Performance Coatings & Finishes' sales increased by \$2.0 million in the second quarter and \$3.1 million for the six months ended May 31, 2003, compared to the same periods in 2002. The three-month and six-month sales increases resulted from appreciation of foreign currencies relative to the U.S. dollar. Sales in local currencies by operations outside the U.S. were flat, while sales in the U.S. were lower. Sales of protective coatings in the U.S. declined due to continued sluggishness in U.S.

industrial and marine markets caused by the general economic slowdown and partly due to deferred maintenance of currently deployed U.S. Navy ships. The short-term outlook for the Performance Coatings & Finishes Group has improved slightly, with full recovery dependent on improvement in worldwide industrial, oilfield and marine markets for protective coatings.

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

Fiberglass-Composite Pipe's sales increased by \$8.1 million in the second quarter and \$13.7 million for the six months ended May 31, 2003, compared to the same periods in 2002. The increases were due primarily to the strength of Asian operations and partly to favorable foreign exchange rates. Sales to industrial markets outside of Asia declined, reflecting the weak market caused by general

15

economic conditions. Sales of onshore oilfield piping improved as oilfield spending increased. The near-term outlook for the Fiberglass-Composite Pipe Group remains positive.

The Water Transmission Group's sales decreased by \$3.8 million in the second quarter and \$2.9 million for the six months ended May 31, 2003, compared to the same periods in 2002. Sales of concrete and steel pipe for fresh and waste water applications declined due to a cyclical slowdown in the water market. Sales of fabricated bridge pilings for the San Francisco/Oakland Bay Bridge offset much of the decline. 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 longer-term outlook for Water Transmission remains positive.

Infrastructure Products' sales increased by \$3.0 million in the second quarter and \$5.8 million for the six months ended May 31, 2003, compared to the same periods in 2002. Hawaiian and pole operations continued to benefit from the strong housing and commercial construction spending, which was spurred by low interest rates. The outlook for the Infrastructure Products Group remains positive.

### **Gross Profit**

Gross profit in the second quarter was \$40.3 million, or 27.3% of sales, and \$73.0 million, or 26.2% of sales, for the six months ended May 31, 2003, compared to \$35.6 million, or 25.8% of sales, and \$66.0 million, or 25.5 % of sales, respectively, for the same periods in 2002. Gross profit increased due to higher sales and improved margins. Overall margins improved primarily due to a change in product mix as the proportion of higher-margin fiberglass pipe sales increased.

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

Gross profits of the Water Transmission Group fell \$4.1 million in the first half of 2003, compared to the same period in 2002. The decline came approximately \$.8 million from lower sales, \$2.2 million from the change in product mix and \$1.1 million from higher operating costs. Gross profits of the Fiberglass-Composite Pipe Group increased \$7.6 million in the first half of 2003, compared to the first six months of 2002. The improvement came approximately \$3.5 million from higher sales, \$1.5 million from lower raw material costs and \$2.6 million from improved plant utilization and lower operating costs.

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

Selling, general and administrative ("SG&A") expenses totaled \$32.0 million, or 21.6% of sales, for the second quarter, and \$60.6 million, or 21.7% of sales, for the six months ended May 31, 2003, compared to \$28.1 million, or 20.4% of sales, and \$55.4 million, or 21.4% of sales, respectively, for the same periods in 2002.

Compared to the second quarter of 2002, as anticipated, SG&A in the second quarter of 2003 increased due to almost \$1.9 million higher pension costs, \$.4 million higher insurance costs and \$.5 million for increased product development costs.

Compared to the first half of 2002, SG&A in 2003 increased because of higher sales, higher pension and insurance costs of \$4.6 million, and higher severance costs related to a cost reduction program by the European coatings operations of \$.7 million. Offsetting the increased costs were savings from additional cost reduction programs implemented in 2002 in worldwide Fiberglass-Composite Pipe operations and U.S. coatings operations. Also reducing SG&A was a net recovery of \$.9 million representing amounts agreed to be reimbursed to the Company by its own and a supplier's insurance companies for past legal fees and costs in excess of the negotiated settlement with the USBR of the Central Arizona Project lawsuits reached in January 2003.

### **Equity and Other Income**

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

Equity in earnings of joint ventures in the second quarter increased \$1.0 million and was flat for the six months ended May 31, 2003, compared to the same periods of 2002. The increase was due to higher income from Ameron's concrete-pipe venture in Saudi Arabia, which offset a continued decline by TAMCO, Ameron's 50%-owned steel mini-mill in California. Equity income for the remainder of 2003 is expected to be lower than in the second half of 2002.

Other income includes royalties and fees from licensees, foreign currency transaction gains and losses and other miscellaneous income. Other income declined \$1.2 million in the second quarter and \$1.3 million in the first half of 2003. The declines came primarily from lower income from cost investments and foreign currency transaction losses. Royalties and fees for the second quarter totaled \$.5 million and \$1.1 million for the six months ended May 31, 2003, compared to \$.6 million and \$1.0 million, respectively, for the same periods in 2002.

16

### **Interest**

Interest expense totaled \$1.8 million for the second quarter and \$3.3 million for the six months ended May 31, 2003, compared to \$1.6 million and \$4.0 million, respectively, for the same periods in 2002. The quarterly increase came despite lower borrowing levels because of the higher interest, fixed-rate notes placed earlier in 2003. The six-month decrease reflected lower average borrowing levels in 2003.

### **Provision for Income Taxes**

The effective tax rate was 33% for the second quarter and six months ended May 31, 2003 compared to 32% for the same periods in 2002. The higher effective tax rate reflected the anticipated, full-year mix of income from domestic operations, foreign operations and joint ventures. Income from certain foreign operations and joint ventures is taxed at rates lower than U.S. statutory tax rates.

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

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's 2002 Annual Report.

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

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

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

## **Part II. OTHER INFORMATION**

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

As previously reported, the Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to certain products previously manufactured by the Company, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as

a result of these claims. The Company continues to vigorously defend all such lawsuits. As of May 31, 2003, the Company was a defendant in asbestos-related cases involving 17,426 claimants, compared to 13,135 claimants as of February 28, 2003.

The Company is one of numerous defendants in various pending lawsuits involving, as of May 31, 2003, 5,958 individuals or their representatives alleging personal injury from exposure to silica-containing products. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to certain products previously manufactured by the Company, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of these claims. The Company intends to vigorously defend all such lawsuits.

17

## **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 \$26.5 million of consolidated retained earnings were not restricted at May 31, 2003.

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

The Company's Annual Meeting of Stockholders was held on March 26, 2003. Represented at the meeting, in person or by proxy, were 3,706,477 shares of common stock (93.8% of the total shares outstanding as of the date of the meeting). Stockholders voted on the following matters at this meeting:

### **1. Election of Directors**

The three nominees named in the Company's proxy statement, Messrs. Barker, King and Peppercorn, having received the greatest number of votes cast, were re-elected to serve for another term with each receiving not less than 3,579,930 votes on a cumulative basis.

Other directors whose terms of office continued after the meeting are: David Davenport, J. Michael Hagan, Terry L. Haines, Thomas L. Lee, James S. Marlen and Dennis C. Poulsen.

### **2. Proposal to Ratify the Appointment of Auditors**

3,573,381 shares (96.4% of the shares represented at the meeting and 90.5% of the total shares outstanding as of the date of the meeting) voted in favor of the proposal to ratify the appointment of Deloitte & Touche LLP as independent public accountants of the Company for fiscal year 2003. Of the shares represented at the meeting, 124,859 (3.4%) voted against the proposal.

### **3. Proposal to Approve the Key Executive Long-Term Cash Incentive Plan**

3,454,412 shares (93.2% of the shares represented and voting and 87.5% of the total shares outstanding as of the date of the meeting) voted in favor of the proposal to approve the Key Executive Long-Term Cash Incentive Plan. Of the shares represented at the meeting, 134,082 shares (3.6%) voted against the proposal.

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

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

A Form 8-K was filed on March 26, 2003 to report the Company's financial results for the first quarter ended February 28, 2003, as reported in a press release dated March 26, 2003.

A Form 8-K was filed on March 27, 2003 to report the Company's announcement of a 25% dividend increase and a two-for-one stock split, as reported in a press release dated March 27, 2003.

A Form 8-K was filed on May 22, 2003 to report the Company's change in independent auditors from Deloitte & Touche LLP to PricewaterhouseCoopers LLP.

A Form 8-K was filed on May 27, 2003 to report the Company's completion of its two-for-one stock split, as reported in a press release dated May 27, 2003.

18

**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

1, 2003

Date: July

By: /s/ Gary Wagner

-----

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

CERTIFICATIONS

I, Gary Wagner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

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

July 1, 2003

/s/ Gary Wagner  
-----

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

CERTIFICATIONS

I, James S. Marlen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

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

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

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

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

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

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

July 1, 2003

/s/ James S. Marlen

-----  
James S. Marlen

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



