AMERON INTERNATIONAL CORP
Form 10-Q
September 25, 2009

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 30, 2009

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 Number 1-9102

AMERON INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	77-0100596
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

245 South Los Robles Avenue
Pasadena, CA 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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of outstanding shares of Common Stock, $2.50 par value, was 9,215,491 on August 30, 2009. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

For the Quarter Ended August 30, 2009

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended August 30, 2009	Three Months Ended August 31, 2008	Nine Months Ended August 30, 2009	Nine Months Ended August 31, 2008
Sales	$ 131,378	$ 170,107	$ 410,300	$ 479,669
Cost of sales	(95,760)	(132,652)	(303,211)	(369,016)
Gross profit	35,618	37,455	107,089	110,653
Selling, general and administrative expenses	(25,602)	(25,795)	(77,887)	(77,462)
Other income, net	418	2,252	3,320	5,802
Income before interest, income taxes and equity in (loss)/earnings of joint venture	10,434	13,912	32,522	38,993
Interest (expense)/income, net	(373)	(19)	(692)	412
Income before income taxes and equity in (loss)/earnings of joint venture	10,061	13,893	31,830	39,405
Provision for income taxes	(3,778)	(3,079)	(8,397)	(12,008)
Income before equity in (loss)/earnings of joint venture	6,283	10,814	23,433	27,397
Equity in (loss)/earnings of joint venture, net of taxes	(335)	4,184	(4,233)	13,671
Net income	$ 5,948	$ 14,998	$ 19,200	$ 41,068
Basic net income per share	$ .65	$ 1.64	$ 2.10	$ 4.50
Diluted net income per share	$ .65	$ 1.63	$ 2.09	$ 4.48
Weighted-average shares (basic)	9,173,955	9,134,672	9,164,093	9,118,768
Weighted-average shares (diluted)	9,195,970	9,208,536	9,180,304	9,171,103
Cash dividends per share	$ .30	$ .30	$ .90	$ .85

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – ASSETS (UNAUDITED)

(Dollars in thousands)	August 30, 2009	November 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 170,208	$ 143,561
Receivables, less allowances of $6,412 in 2009 and $7,009 in 2008	147,228	181,961
Inventories	72,179	95,645
Deferred income taxes	21,238	25,582
Prepaid expenses and other current assets	12,408	10,053
Total current assets	423,261	456,802
Investments in joint ventures		
Equity method	19,744	14,428
Loans	12,500	-
Cost method	3,784	3,784
Property, plant and equipment		
Land	44,170	38,679
Buildings	95,957	85,555
Machinery and equipment	326,252	306,177
Construction in progress	44,417	37,386
Total property, plant and equipment at cost	510,796	467,797
Accumulated depreciation	(279,049)	(261,635)
Total property, plant and equipment, net	231,747	206,162
Deferred income taxes	4,763	4,763
Goodwill and intangible assets, net of accumulated amortization of $1,242 in 2009 and $1,197 in 2008	2,088	2,108
Other assets	39,629	38,275
Total assets	$ 737,516	$ 726,322

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – LIABILITIES AND STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)	August 30, 2009	November 30, 2008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$ 17,088	$ 16,763
Trade payables	43,725	52,613
Accrued liabilities	79,121	79,538
Income taxes payable	1,297	10,443
Total current liabilities	141,231	159,357
Long-term debt, less current portion	37,455	35,989
Other long-term liabilities	55,035	53,856
Total liabilities	233,721	249,202
Commitments and contingencies		
Stockholders' equity		
Common Stock, par value $2.50 per share, authorized 24,000,000 shares, outstanding 9,215,491 shares in 2009 and 9,188,692 shares in 2008, net of treasury shares	29,920	29,805
Additional paid-in capital	58,357	54,447
Retained earnings	489,882	478,968
Accumulated other comprehensive loss	(18,747)	(31,475)
Treasury Stock (2,752,701 shares in 2009 and 2,733,300 shares in 2008)	(55,617)	(54,625)
Total stockholders' equity	503,795	477,120
Total liabilities and stockholders' equity	$ 737,516	$ 726,322

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Nine Months Ended August 30, 2009	August 31, 2008
OPERATING ACTIVITIES		
Net income	$ 19,200	$ 41,068
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	15,229	14,733
Amortization	28	82
Loss/(earnings in excess of distributions) from joint ventures	4,684	(4,316)
(Gain)/loss from sale of property, plant and equipment	(72)	15
Stock compensation expense	3,229	4,873
Changes in operating assets and liabilities:		
Receivables, net	37,013	15,168
Inventories	25,604	3,194
Prepaid expenses and other current assets	(2,009)	(163)
Other assets	(210)	(5,500)
Trade payables	(10,226)	7,802
Accrued liabilities and income taxes payable	(11,332)	(24,490)
Other long-term liabilities and deferred income taxes	5,844	7,048
Net cash provided by operating activities	86,982	59,514
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	552	1,290
Additions to property, plant and equipment	(35,245)	(44,539)
Investment in joint venture	(10,000)	-
Loan to joint venture	(12,500)	-
Net cash used in investing activities	(57,193)	(43,249)
FINANCING ACTIVITIES		
Issuance of debt	447	-
Repayment of debt	-	(4,073)
Debt issuance costs	(953)	-
Dividends on Common Stock	(8,286)	(7,792)
Issuance of Common Stock	-	846
Excess tax benefits related to stock-based compensation	796	1,251
Purchase of treasury stock	(992)	(2,754)
Net cash used in financing activities	(8,988)	(12,522)
Effect of exchange rate changes on cash and cash equivalents	5,846	(899)
Net change in cash and cash equivalents	26,647	2,844
Cash and cash equivalents at beginning of period	143,561	155,433
Cash and cash equivalents at end of period	$ 170,208	$ 158,277

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Consolidated financial statements for the interim periods included herein are unaudited; however, such financial statements contain all adjustments, including normal recurring accruals, which, in the opinion of Management, are necessary for the fair statement of the consolidated financial position of Ameron International Corporation and all subsidiaries (the "Company" or "Ameron" or the "Registrant") as of August 30, 2009, and consolidated results of operations and cash flows for the nine months ended August 30, 2009. 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.

For accounting consistency, the quarter typically ends on the Sunday closest to the end of the relevant calendar month. The Company’s fiscal year ends on November 30, regardless of the day of the week. Each quarter consists of approximately 13 weeks, but the number of days per quarter can change from period to period. The quarters ended August 30, 2009 and August 31, 2008 each consisted of 91 days. The nine months ended August 30, 2009 and August 31, 2008 consisted of 273 days and 275 days, respectively.

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 the Company’s Annual Report on Form 10-K for the year ended November 30, 2008 ("2008 Annual Report"). The Company evaluated material subsequent events through the date these consolidated financial statements were issued.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” SFAS No. 157 establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Relative to SFAS No. 157, the FASB issued FASB Staff Position (“FSP”) FASB Statements (“FAS”) 157-1, FAS 157-2 and FAS 157-3 in 2008. FSP FAS 157-1 amends SFAS No. 157 to exclude SFAS No. 13, “Accounting for Leases,” and its related interpretive accounting pronouncements that address leasing transactions. FSP FAS 157-2 delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-3 clarifies how SFAS No. 157 should be applied when valuing securities in markets that are not active. The Company adopted SFAS No. 157, as amended, effective December 1, 2007 with the exception of the application of SFAS No. 157 to non-recurring, non-financial assets and non-financial liabilities which was adopted as of December 1, 2008. The adoption of SFAS No. 157 did not have a significant impact on the Company’s financial results of operations or financial position.

In September 2006, the FASB issued Emerging Issues Task Force (“EITF”) Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,” effective for fiscal years beginning after December 15, 2007. EITF Issue No. 06-4 requires that, for split-dollar life insurance arrangements providing a benefit to an employee extending to postretirement periods, an employer should recognize a liability for future benefits in accordance with SFAS No. 106. EITF Issue No. 06-4 requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company adopted EITF Issue No. 06-4 as of December 1, 2008, and adoption did not have a material effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133," effective for fiscal years beginning after November 15, 2008, with early application encouraged. SFAS No. 161 amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why the Company uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. The Company adopted SFAS No. 161 as of December 1, 2008, and adoption did not have a material effect on the Company's consolidated financial statements.

Table of Contents

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," which addresses whether unvested instruments granted in share-based payment transactions that contain nonforfeitable rights to dividends or dividend equivalents are participating securities subject to the two-class method of computing earnings per share under SFAS No. 128, "Earnings Per Share." FSP EITF 03-6-1 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will adopt FSP EITF 03-6-1 as of the fiscal year beginning December 1, 2009. The adoption of FSP EITF 03-6-1 is not expected to have a material effect on the Company's consolidated financial statements.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," amending SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," effective for fiscal years ending after December 15, 2009. FSP FAS 132(R)-1 requires an employer to disclose investment policies and strategies, categories, fair value measurements, and significant concentration of risk among its postretirement benefit plan assets. The Company will adopt FSP FAS 132(R)-1 as of the fiscal year beginning December 1, 2009. The adoption of FSP FAS 132(R)-1 is not expected to have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board ("APB") 28-1 which amended SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 also amend APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 as of June 1, 2009, and adoption did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 was issued to amend FASB Interpretation No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. SFAS No. 167 shall be effective as of the Company's first annual reporting period and interim reporting periods beginning after November 15, 2009. Earlier application is prohibited. The first such reporting period for the Company will be the fiscal year beginning December 1, 2009. The Company is evaluating whether the adoption of SFAS No. 167 will have a material effect on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," to establish the FASB Accounting Standards Codification ("Codification") as the single source of authoritative United States Generally Accepted Accounting Principles ("GAAP") to be applied by nongovernmental entities, except for the rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is referenced and organized. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS No. 168 as of August 31, 2009. The adoption of SFAS No. 168 is not expected to have a material effect on the Company's consolidated financial statements.

NOTE 3 – RECEIVABLES

The Company's receivables consisted of the following:

(In thousands)	August 30, 2009	November 30, 2008

Trade	$	126,109	$	155,061
Joint ventures		2,469		1,380
Other		25,062		32,529
Allowances		(6,412)		(7,009)
	$	147,228	$	181,961

Trade receivables included unbilled receivables related to percentage-of-completion revenue recognition of $28,276,000 and $24,706,000 at August 30, 2009 and November 30, 2008, respectively.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 4 – INVENTORIES

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

(In thousands)	August 30, 2009	November 30, 2008
Finished products	$ 36,564	$ 44,033
Materials and supplies	18,361	33,485
Products in process	17,254	18,127
	$ 72,179	$ 95,645

NOTE 5 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information included the following:

	Nine Months Ended	
(In thousands)	August 30, 2009	August 31, 2008
Interest paid	$ 1,002	$ 1,827
Income taxes paid	8,094	14,808

NOTE 6 – JOINT VENTURES

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

	Three Months Ended		Nine Months Ended	
(In thousands)	August 30, 2009	August 31, 2008	August 30, 2009	August 31, 2008
Net sales	$ 25,543	$ 113,762	$ 65,800	$ 332,220
Gross profit/(loss)	1,099	18,721	(10,179)	61,520
Net (loss)/income	(741)	9,258	(9,367)	30,247

Investments in Ameron Saudi Arabia, Ltd. ("ASAL") and Bondstrand, Ltd. ("BL") are accounted for under the cost method due to Management's current assessment of the Company's influence over these joint ventures. Earnings from ASAL and BL, if any, are included in other income, net.

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

	Three Months Ended		Nine Months Ended	
(In thousands)	August 30, 2009	August 31, 2008	August 30, 2009	August 31, 2008
Earnings from joint ventures				
Equity in (loss)/earnings of TAMCO before income taxes	$ (371)	$ 4,629	$ (4,684)	$ 15,124
Less benefit/(provision) for income taxes	36	(445)	451	(1,453)
Equity in (loss)/earnings of TAMCO, net of taxes	$ (335)	$ 4,184	$ (4,233)	$ 13,671
Dividends received from joint ventures				

TAMCO	$	-	$	5,748	$	-	$	10,808
ASAL		-		-		-		1,496
BL		-		1,227		2,207		1,227

Table of Contents
9

TAMCO's shareholders made a $20,000,000 capital contribution to TAMCO in February 2009. The Company's share of the funding from TAMCO's shareholders totaled $10,000,000. In July 2009, TAMCO entered into a senior secured credit facility with TAMCO's shareholders which provided TAMCO up to $40,000,000 for operating needs and to replace an existing bank line. The shareholder credit facility bears interest at LIBOR plus 3.25% per annum and is scheduled to mature January 31, 2011. As of August 30, 2009, TAMCO borrowed $25,000,000 under the facility, of which $12,500,000 was provided by the Company. The Company continues to have a 50% ownership interest in TAMCO and accounts for its investment under the equity method of accounting.

NOTE 7 – NET INCOME PER SHARE

Basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods presented. Diluted net income per share is computed on the basis of the weighted-average number of common shares outstanding plus the effect of outstanding stock options and restricted stock, using the treasury stock method. The computations of earnings per share for the quarter and nine months ended August 30, 2009 do not include 45,138 shares reserved for issuance upon exercise of stock options and for restricted shares because their inclusion would have been anti-dilutive. The computations of earnings per share for the quarter and nine months ended August 31, 2008 do not include 58,802 shares reserved for issuance upon exercise of stock options and for restricted shares because their inclusion would have been anti-dilutive.

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

	Three Months Ended	Nine Months Ended
August 30,		