AMERON INTERNATIONAL CORP
Form 10-Q
September 27, 2010

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 29, 2010

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)

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨(Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of outstanding shares of Common Stock, $2.50 par value, was 9,249,105 on September 17, 2010. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

For the Quarter Ended August 29, 2010

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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 29, 2010	Three Months Ended August 30, 2009	Nine Months Ended August 29, 2010	Nine Months Ended August 30, 2009
Sales	$134,199	$131,378	$379,761	$410,300
Cost of sales	(101,553)	(95,760)	(282,338)	(303,211)
Gross profit	32,646	35,618	97,423	107,089
Selling, general and administrative expenses	(24,116)	(25,602)	(75,516)	(77,887)
Other income, net	2,132	418	3,643	3,320
Income before interest, income taxes and equity in loss of affiliate	10,662	10,434	25,550	32,522
Interest expense, net	(243)	(373)	(655)	(692)
Income before income taxes and equity in loss of affiliate	10,419	10,061	24,895	31,830
Provision for income taxes	(1,349)	(3,778)	(4,008)	(8,397)
Income before equity in loss of affiliate	9,070	6,283	20,887	23,433
Equity in loss of affiliate, net of taxes	(168)	(335)	(1,353)	(4,233)
Net income	$8,902	$5,948	$19,534	$19,200
Net income per share allocated to Common Stock (see Note 7)				
Basic	$.96	$.64	$2.11	$2.08
Diluted	$.96	$.64	$2.11	$2.08
Weighted-average shares (basic)	9,218,180	9,173,955	9,200,511	9,164,093
Weighted-average shares (diluted)	9,229,722	9,195,970	9,215,993	9,180,304
Cash dividends per share	$.30	$.30	$.90	$.90

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

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – ASSETS (UNAUDITED)

(Dollars in thousands)	August 29, 2010	November 30, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$179,946	$181,114
Receivables, less allowances of $4,860 in 2010 and $5,351 in 2009	150,922	151,210
Inventories	63,887	62,700
Deferred income taxes	18,961	19,795
Prepaid expenses and other current assets	11,401	11,585
Total current assets	425,117	426,404
Investments		
Equity method affiliate	25,661	30,626
Cost method affiliates	3,784	3,784
Property, plant and equipment		
Land	46,041	46,029
Buildings	101,897	100,583
Machinery and equipment	364,722	345,604
Construction in progress	34,087	32,306
Total property, plant and equipment at cost	546,747	524,522
Accumulated depreciation	(301,591)	(286,014)
Total property, plant and equipment, net	245,156	238,508
Deferred income taxes	14,321	14,321
Goodwill and intangible assets, net of accumulated amortization of $1,281 in 2010 and $1,257 in 2009	2,062	2,088
Other assets	46,826	46,818
Total assets	$762,927	$762,549

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

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

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

(Dollars in thousands, except per share data)	August 29, 2010	November 30, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$7,539	$7,366
Trade payables	43,234	44,052
Accrued liabilities	77,678	77,515
Income taxes payable	4,313	10,004
Total current liabilities	132,764	138,937
Long-term debt, less current portion	31,006	30,933
Deferred income taxes	1,755	1,710
Other long-term liabilities	94,256	99,379
Total liabilities	259,781	270,959
Commitments and contingencies		
Stockholders' equity		
Common Stock, par value $2.50 per share, authorized 24,000,000 shares, outstanding 9,247,105 shares in 2010 and 9,209,836 shares in 2009	30,047	29,920
Additional paid-in capital	60,705	59,531
Retained earnings	511,427	500,224
Accumulated other comprehensive loss	(41,964)	(42,036)
Treasury Stock (2,771,637 shares in 2010 and 2,758,356 shares in 2009)	(57,069)	(56,049)
Total stockholders' equity	503,146	491,590
Total liabilities and stockholders' equity	$762,927	$762,549

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars In thousands)	Nine Months Ended August 29, 2010	Nine Months Ended August 30, 2009
OPERATING ACTIVITIES		
Net income	$19,534	$19,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,401	15,229
Amortization	25	28
Loss from affiliate	1,467	4,684
Loss/(gain) from sale of property, plant and equipment	90	(72)
Stock compensation expense	1,719	3,229
Changes in operating assets and liabilities:		
Receivables, net	256	37,013
Inventories	(1,032)	25,604
Prepaid expenses and other current assets	232	(2,009)
Other assets	(81)	(210)
Trade payables	(1,012)	(10,226)
Accrued liabilities and income taxes payable	(6,197)	(11,332)
Other long-term liabilities and deferred income taxes	(4,924)	5,844
Net cash provided by operating activities	29,478	86,982
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	289	552
Additions to property, plant and equipment	(25,372)	(35,245)
Investment in affiliate	-	(10,000)
Loan repayment from/(loan to) affiliate, net	3,500	(12,500)
Net cash used in investing activities	(21,583)	(57,193)
FINANCING ACTIVITIES		
Issuance of debt	222	447
Repayment of debt	(518)	-
Debt issuance costs	-	(953)
Dividends on Common Stock	(8,331)	(8,286)
Issuance of Common Stock	332	-
Excess tax benefits related to stock-based compensation	-	796
Purchase of treasury stock	(1,081)	(992)
Net cash used in financing activities	(9,376)	(8,988)
Effect of exchange rate changes on cash and cash equivalents	313	5,846
Net change in cash and cash equivalents	(1,168)	26,647
Cash and cash equivalents at beginning of period	181,114	143,561
Cash and cash equivalents at end of period	$179,946	$170,208

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

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 29, 2010, and consolidated results of operations for the three and nine months ended August 29, 2010 and cash flows for the nine months ended August 29, 2010. 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 vary from period to period. The quarters ended August 29, 2010 and August 30, 2009 each consisted of 91 days. The nine months ended August 29, 2010 and August 30, 2009 consisted of 272 days and 273 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, 2009 ("2009 Annual Report").

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2008, the Financial Accounting Standards Board (“FASB”) issued guidance requiring unvested instruments granted in share-based payment transactions that contain nonforfeitable rights to dividends or dividend equivalents to be accounted for as participating securities subject to the two-class method of computing earnings per share. All earnings per share data for periods prior to adoption are required to be adjusted retrospectively. The Company adopted the guidance as of December 1, 2009, and the adoption did not have a material effect on the Company’s consolidated financial statements. See Note 7 for a reconciliation of net income allocated to Common Stock using the two-class method.

In December 2008, the FASB issued revised guidance for employers’ disclosures about postretirement benefit plan assets effective for fiscal years ending after December 15, 2009. The FASB 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 the revised guidance as of November 30, 2010. Adoption is not expected to have a material effect on the Company’s consolidated financial statements.

In June 2009, the FASB issued guidance to revise the approach to determine when a variable interest entity (“VIE”) should be consolidated. The new consolidation model for VIE’s considers whether the Company has the power to direct the activities that most significantly impact the VIE’s economic performance and shares in the significant risks and rewards of the entity. The guidance on VIE’s requires companies to continually reassess VIE’s to determine if consolidation is appropriate and provide additional disclosures. The Company adopted the guidance as of December 1, 2009, and adoption did not have a material effect on the Company’s consolidated financial statements.

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In January 2010, the FASB required new disclosures about fair value of financial instruments for interim and annual reporting periods. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements of Level 3 financial instruments, which are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010. Adoption 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 29, 2010	November 30, 2009
Trade	$129,188	$121,822
Affiliates	2,145	960
Other	24,449	33,779
Allowances	(4,860)	(5,351)
	$150,922	$151,210

Trade receivables included unbilled receivables related to percentage-of-completion revenue recognition of $27,414,000 and $33,705,000 at August 29, 2010 and November 30, 2009, respectively.

NOTE 4 – INVENTORIES

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

(In thousands)	August 29, 2010	November 30, 2009
Finished products	$32,614	$30,100
Materials and supplies	23,274	22,952
Products in process	7,999	9,648
	$63,887	$62,700

NOTE 5 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information included the following:

	Nine Months Ended	
(In thousands)	August 29, 2010	August 30, 2009
Interest paid	$618	$1,002
Income taxes paid, net	3,423	8,094

NOTE 6 – AFFILIATES

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 29, 2010	August 30, 2009	August 29, 2010	August 30, 2009
Net sales	$35,495	$25,543	$81,786	$65,800
Gross profit/(loss)	1,063	1,099	1,249	(10,179)
Net loss	(364)	(741)	(2,933)	(9,367)

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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 affiliates. Earnings from ASAL and BL, if any, are included in other income, net.

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

(In thousands)	Three Months Ended August 29, 2010	Three Months Ended August 30, 2009	Nine Months Ended August 29, 2010	Nine Months Ended August 30, 2009
Earnings from affiliate				
Equity in loss of TAMCO before income taxes	$(182)	$(371)	$(1,467)	$(4,684)
Less benefit for income taxes	14	36	114	451
Equity in loss of TAMCO, net of taxes	$(168)	$(335)	$(1,353)	$(4,233)
Dividends received from affiliates				
TAMCO	$-	$-	$-	$-
ASAL	-	-	-	-
BL	1,899	-	1,899	2,207

In 2009, TAMCO entered into a senior secured credit facility with TAMCO's shareholders which provides TAMCO up to $40,000,000. The shareholder credit facility bears interest at LIBOR plus 3.25% per annum and is scheduled to mature January 31, 2011. As of November 30, 2009, TAMCO borrowed $30,000,000 under the facility, of which $15,000,000 was provided by the Company. As of August 29, 2010, TAMCO's usage of the facility totaled $23,000,000, of which $11,500,000 was borrowed from the Company. The Company continued to have a 50% ownership interest in TAMCO as of August 29, 2010.

In the fourth quarter of 2010, the Company agreed to sell its ownership in TAMCO for $82,500,000, before transaction costs. In addition to its investment of $25,661,000 as of August 29, 2010, accumulated other comprehensive loss included $4,849,000 related to TAMCO.

NOTE 7 – NET INCOME PER SHARE

Basic and diluted net income per share are computed using the two-class method which allocates earnings to both Common Stock and participating securities. Under the two-class method, unvested restricted Common Stock with non-forfeitable rights to dividends are considered participating securities. Dividends from such participating securities are excluded from net income allocated to Common Stock for purposes of the two-class method calculation.

Basic shares are computed on the basis of the weighted-average number of shares of Common Stock outstanding during the periods presented. Diluted shares are computed on the basis of the weighted-average number of shares of Common Stock outstanding plus the effect of outstanding stock options and restricted stock using the treasury stock method. Stock options and restricted stock of 22,886 and 45,138 shares are excluded from the below calculation for the quarters ended August 29, 2010 and August 30, 2009, respectively, as inclusion would be anti-dilutive. For the nine months ended August 29, 2010 and August 30, 2009, stock options and restricted stock of 19,286 and 45,138 shares, respectively, are excluded from the calculation as inclusion would be anti-dilutive.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Following is a reconciliation of net income allocated to Common Stock, using the two-class method, and the weighted-average number of shares used in the computation of basic and diluted net income per share allocated to Common Stock:

(In thousands, except per share data)	Three Months Ended August 29, 2010	Three Months Ended August 30, 2009	Nine Months Ended August 29, 2010	Nine Months Ended August 30, 2009
Numerator for basic income per share:				
Net income	$8,902	$5,948	$19,534	$19,200
Less: net income allocated to participating securities	(42)	(38)	(93)	(131)
Net income allocated to Common Stock	$8,860	$5,910	$19,441	$19,069
Denominator for basic income per share:				
Weighted-average shares outstanding, basic	9,218,180	9,173,955	9,200,511	9,164,093
Basic net income per share allocated to Common Stock	$.96	$.64	$2.11	$2.08
Numerator for diluted income per share:				
Net income	$8,902	$5,948	$19,534	$19,200
Less: net income allocated to participating securities	(39)	(33)	(85)	(112)
Net income allocated to Common Stock	$8,863	$5,915	$19,449	$19,088
Denominator for diluted income per share:				
Weighted-average shares outstanding, basic	9,218,180	9,173,955	9,200,511	9,164,093
Dilutive effect of stock options and restricted stock	11,542	22,015	15,482	16,211
Weighted-average shares outstanding, diluted	9,229,722	9,195,970	9,215,993	9,180,304
Diluted net income per share allocated to Common Stock	$.96	$.64	$2.11	$2.08

NOTE 8 – COMPREHENSIVE INCOME

Comprehensive income was as follows:

(In thousands)	Three Months Ended August 29, 2010	Three Months Ended August 30, 2009	Nine Months Ended August 29, 2010	Nine Months Ended August 30, 2009
Net income	$8,902	$5,948	$19,534	$19,200
Foreign currency translation adjustment	6,685	2,246	72	12,728
Comprehensive income	$15,587	$8,194	$19,606	$31,928

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NOTE 9 – DEBT

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

(In thousands)	August 29, 2010	November 30, 2009
Fixed-rate notes:		
4.25%, payable in Singapore dollars, in annual principal installments of $7,539	$22,618	$22,098
Variable-rate industrial development bonds:		
payable in 2016 (.50% at August 29, 2010)	7,200	7,200
payable in 2021 (.50% at August 29, 2010)	8,500	8,500
Variable-rate bank revolving credit facility (1.51% at August 29, 2010)	227	501
Total long-term debt	38,545	38,299
Less current portion	(7,539)	(7,366)
Long-term debt, less current portion	$31,006	$30,933

The Company maintains a $100,000,000 revolving credit facility with a syndicate of six banks (the “Revolver”). Under the Revolver, the Company may, at its option, borrow up to the available amount at floating interest rates (LIBOR plus a spread ranging from 2.75% to 3.75%, based on the Company's financial condition and performance) or utilize the facility for letters of credit at a similar spread at any time until maturity in August 2012 when all borrowings under the Revolver must be repaid and letters of credit cancelled. At August 29, 2010, $17,212,000 of the Revolver was utilized for standby letters of credit; therefore, $82,788,000 was available under the Revolver.

Foreign subsidiaries also maintain unsecured revolving credit facilities with banks. Foreign subsidiaries may borrow in various currencies at interest rates based upon specified margins over money market rates. Existing foreign credit facilities permit borrowings of up to $31,122,000. At August 29, 2010, $227,000 was borrowed under these facilities.

The Company’s lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, capital expenditures, investments, guarantees, and financial covenants. The Company was in compliance with all covenants as of August 29, 2010. The Revolver and the 4.25% term notes are collateralized by substantially all of the Company's assets. The industrial development bonds are supported by standby letters of credit that are issued under the Revolver. The interest rate on the industrial development bonds is based on the Securities Industry and Financial Markets Association (“SIFMA”) Index plus a spread of .20%. Certain note agreements contain provisions regarding the Company's ability to grant security interests or liens in association with other debt instruments. If the Company grants such a security interest or lien, then such notes will be collateralized equally and ratably as long as such other debt shall be collateralized.

Estimated fair value of the Company's debt is prepared in accordance with FASB’s fair value disclosure requirements (see Note 17). These requirements establish a framework for measuring the fair value of financial instruments including a disclosure hierarchy based on the inputs used to measure fair value. The estimated fair value amounts of debt are determined by the Company using available market information, various valuation methodologies and Level 2 measurement inputs. Considerable judgement is required to develop the estimated fair value, thus the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

(In thousands)	Carrying Amount	Fair Value
August 29, 2010		
Fixed-rate, long-term debt	$22,618	$23,409
Variable-rate, long-term debt	15,927	15,927
November 30, 2009		
Fixed-rate, long-term debt	22,098	22,741
Variable-rate, long-term debt	16,201	16,201

The Company uses a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile to determine fair value. The estimated fair value of the Company's fixed-rate, long-term debt is based on U.S. government notes at the respective date plus an estimated spread for similar securities with similar credit risks and remaining maturities.

NOTE 10 – SEGMENT INFORMATION

The Company has determined that it has four operating and three reportable segments: Fiberglass-Composite Pipe, Water Transmission and Infrastructure Products. Infrastructure Products consists of two operating segments, the Pole Products and Hawaii Divisions, which are aggregated. Each of the segments has a dedicated management team and is managed separately, primarily because of differences in products. TAMCO is not included in any of these segments. The Company's Chief Operating Decision Maker is the Chief Executive Officer who primarily reviews sales and income before interest, income taxes and equity in earnings of affiliate for each operating segment in making decisions about allocating resources and assessing performance. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Costs of certain shared services (e.g., costs of Company-wide insurance programs or benefit plans) are allocated to the operating segments based on revenue, wages or net assets employed. Other items not related to current operations or of an unusual nature are not allocated to the reportable segments, such as adjustments to reflect inventory balances of certain steel inventories under the last-in, first-out (“LIFO”) method, certain unusual legal costs and expenses, interest expense and income taxes.

Following is information related to each reportable segment included in, and in a manner consistent with, internal management reports:

	Three Months Ended		Nine Months Ended	
(In thousands)	August 29, 2010	August 30, 2009	August 29, 2010	August 30, 2009
Sales				
Fiberglass-Composite Pipe	$60,128	$56,842	$179,302	$169,115
Water Transmission	41,432	39,764	108,532	133,558
Infrastructure Products	32,615	34,773	91,933	107,639
Eliminations	24	(1)	(6)	(12)
Total Sales	$134,199	$131,378	$379,761	$410,300
Income Before Interest, Income Taxes and Equity in Loss of Affiliate				
Fiberglass-Composite Pipe	$14,784	$17,062	$46,614	$48,198
Water Transmission	2,121	619	491	3,314
Infrastructure Products	3,436	2,432	7,020	9,275

Corporate and unallocated