AMERON INTERNATIONAL CORP
Form 10-Q
June 26, 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 May 31, 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 May 31, 2009. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

For the Quarter Ended May 31, 2009

Table of Contents

PART I – FINANCIAL INFORMATION	3
ITEM 1 – FINANCIAL STATEMENTS	3
ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	18
ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	25
ITEM 4 – CONTROLS AND PROCEDURES	25
PART II – OTHER INFORMATION	26
ITEM 1 – LEGAL PROCEEDINGS	26
ITEM 1A – RISK FACTORS	27
ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	28
ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	28
ITEM 5 – OTHER INFORMATION	28
ITEM 6 – EXHIBITS	29

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
(Dollars in thousands, except per share data)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Sales	$ 132,920	$ 159,793	$ 278,922	$ 309,562
Cost of sales	(96,370)	(120,047)	(207,451)	(236,364)
Gross profit	36,550	39,746	71,471	73,198
Selling, general and administrative expenses	(25,877)	(25,865)	(52,285)	(51,667)
Other income, net	2,431	575	2,902	3,550
Income before interest, income taxes and equity in (loss)/earnings of joint venture	13,104	14,456	22,088	25,081
Interest (expense)/income, net	(148)	142	(319)	431
Income before income taxes and equity in (loss)/earnings of joint venture	12,956	14,598	21,769	25,512
Provision for income taxes	(1,975)	(5,000)	(4,619)	(8,929)
Income before equity in (loss)/earnings of joint venture	10,981	9,598	17,150	16,583
Equity in (loss)/earnings of joint venture, net of taxes	(1,555)	6,735	(3,898)	9,487
Net income	$ 9,426	$ 16,333	$ 13,252	$ 26,070
Basic net income per share	$ 1.03	$ 1.79	$ 1.45	$ 2.86
Diluted net income per share	$ 1.03	$ 1.78	$ 1.44	$ 2.85
Weighted-average shares (basic)	9,171,645	9,132,172	9,159,161	9,110,712
Weighted-average shares (diluted)	9,185,143	9,186,649	9,172,470	9,151,897
Cash dividends per share	$ .30	$ .30	$ .60	$ .55

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)	May 31, 2009	November 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 185,580	$ 143,561
Receivables, less allowances of $6,343 in 2009 and $7,009 in 2008	138,689	181,961
Inventories	81,543	95,645
Deferred income taxes	26,605	25,582
Prepaid expenses and other current assets	10,572	10,053
Total current assets	442,989	456,802
Investments in joint ventures		
Equity method	20,115	14,428
Cost method	3,784	3,784
Property, plant and equipment		
Land	42,479	38,679
Buildings	94,089	85,555
Machinery and equipment	317,666	306,177
Construction in progress	43,319	37,386
Total property, plant and equipment at cost	497,553	467,797
Accumulated depreciation	(270,850)	(261,635)
Total property, plant and equipment, net	226,703	206,162
Deferred income taxes	4,763	4,763
Goodwill and intangible assets, net of accumulated amortization of $1,228 in 2009 and $1,197 in 2008	2,098	2,108
Other assets	38,512	38,275
Total assets	$ 738,964	$ 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)	May 31, 2009	November 30, 2008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$ 17,056	$ 16,763
Trade payables	46,037	52,613
Accrued liabilities	75,454	79,538
Income taxes payable	12,355	10,443
Total current liabilities	150,902	159,357
Long-term debt, less current portion	37,334	35,989
Other long-term liabilities	53,207	53,856
Total liabilities	241,443	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	57,512	54,447
Retained earnings	486,699	478,968
Accumulated other comprehensive loss	(20,993)	(31,475)
Treasury Stock (2,752,701 shares in 2009 and 2,733,300 shares in 2008)	(55,617)	(54,625)
Total stockholders' equity	497,521	477,120
Total liabilities and stockholders' equity	$ 738,964	$ 726,322

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

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Six Months Ended May 31, 2009	Six Months Ended June 1, 2008
OPERATING ACTIVITIES		
Net income	$ 13,252	$ 26,070
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	10,657	9,688
Amortization	19	71
Loss/(earnings in excess of distributions) from joint ventures	4,313	(5,435)
Loss from sale of property, plant and equipment	16	22
Stock compensation expense	2,362	3,633
Changes in operating assets and liabilities:		
Receivables, net	45,120	28,767
Inventories	15,873	(2,959)
Prepaid expenses and other current assets	(246)	(2,021)
Other assets	(87)	(5,296)
Trade payables	(7,675)	838
Accrued liabilities and income taxes payable	(3,637)	(30,966)
Other long-term liabilities and deferred income taxes	(1,221)	13,456
Net cash provided by operating activities	78,746	35,868
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	431	1,433
Additions to property, plant and equipment	(26,471)	(28,638)
Investment in joint venture	(10,000)	-
Net cash used in investing activities	(36,040)	(27,205)
FINANCING ACTIVITIES		
Issuance of debt	427	-
Repayment of debt	-	(4,001)
Dividends on common stock	(5,521)	(5,038)
Issuance of common stock	(1)	810
Excess tax benefits related to stock-based compensation	819	1,251
Purchase of treasury stock	(992)	(2,754)
Net cash used in financing activities	(5,268)	(9,732)
Effect of exchange rate changes on cash and cash equivalents	4,581	5,217
Net change in cash and cash equivalents	42,019	4,148
Cash and cash equivalents at beginning of period	143,561	155,433
Cash and cash equivalents at end of period	$ 185,580	$ 159,581

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

Table of Contents

6

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 May 31, 2009, and consolidated results of operations and cash flows for the six months ended May 31, 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 May 31, 2009 and June 1, 2008 consisted of 91 days each. The six months ended May 31, 2009 and June 1, 2008 consisted of 182 days and 184 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").

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 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 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 shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP FAS 107-1 and APB 28-1 in its third quarter of 2009, and adoption is not expected to 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.

NOTE 3 - RECEIVABLES

The Company's receivables consisted of the following:

(In thousands)	May 31, 2009	November 30, 2008
Trade	$ 116,889	$ 155,061
Joint ventures	1,406	1,380
Other	26,737	32,529
Allowances	(6,343)	(7,009)
	$ 138,689	$ 181,961

Trade receivables included unbilled receivables related to percentage-of-completion revenue recognition of $33,919,000 and $24,706,000 at May 31, 2009 and November 30, 2008, respectively.

NOTE 4 – INVENTORIES

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

(In thousands)	May 31, 2009	November 30, 2008
Finished products	$ 39,389	$ 44,033
Materials and supplies	21,176	33,485
Products in process	20,978	18,127
	$ 81,543	$ 95,645

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 5 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information included the following:

	Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008
Interest paid	$ 681	$ 1,181
Income taxes paid	5,497	8,588

NOTE 6 – JOINT VENTURES

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

	Three Months Ended		Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Net sales	$ 22,460	$ 135,742	$ 40,257	$ 218,458
Gross (loss)/profit	(3,645)	28,976	(11,278)	42,799
Net (loss)/income	(3,442)	14,900	(8,626)	20,989

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		Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Earnings from joint ventures				
Equity (loss)/earnings of TAMCO before income taxes	$ (1,721)	$ 7,450	$ (4,313)	$ 10,495
Less benefit/(provision) for income taxes	166	(715)	415	(1,008)
Equity (loss)/earnings of TAMCO, net of taxes	$ (1,555)	$ 6,735	$ (3,898)	$ 9,487
Dividends received from joint ventures				
TAMCO	$ -	$ 4,510	$ -	$ 5,060
ASAL	-	-	-	1,496
BL	2,207	-	2,207	-

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. The Company continues to have a 50% ownership interest in TAMCO and accounts for its investment under the equity method of accounting. TAMCO’s primary source of external financing is currently a $35,000,000 credit facility, of which $15,000,000 was utilized as of May 31, 2009. TAMCO is in violation of its debt covenants. As a result, the Company expects to provide additional funding to TAMCO in the third quarter of 2009. To resolve the default, TAMCO’s shareholders intend to provide funding of up to $30,000,000 in the form of shareholder loans of which the Company’s share would be up to $15,000,000. In addition, TAMCO’s lender will provide a credit facility of $10,000,000. The terms of TAMCO’s revised credit facility would prohibit TAMCO from paying dividends to its shareholders until the expiration of the facility.

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.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

The computations of earnings per share for the quarter and six months ended May 31, 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 six months ended June 1, 2008 do not include 3,000 and 22,802 shares, respectively, 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		Six Months Ended	
(In thousands, except per share data)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Numerator:				
Net income	$ 9,426	$ 16,333	$ 13,252	$ 26,070
Denominator for basic income per share:				
Weighted-average shares outstanding, basic	9,171,645	9,132,172	9,159,161	9,110,712
Denominator for diluted income per share:				
Weighted-average shares outstanding, basic	9,171,645	9,132,172	9,159,161	9,110,712
Dilutive effect of stock options and restricted stock	13,498	54,477	13,309	41,185
Weighted-average shares outstanding, diluted	9,185,143	9,186,649	9,172,470	9,151,897
Basic net income per share	$ 1.03	$ 1.79	$ 1.45	$ 2.86
Diluted net income per share	$ 1.03	$ 1.78	$ 1.44	$ 2.85

NOTE 8 – COMPREHENSIVE INCOME

Comprehensive income was as follows:

	Three Months Ended		Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Net income	$ 9,426	$ 16,333	$ 13,252	$ 26,070
Foreign currency translation adjustment	13,884	2,448	10,482	7,250
Comprehensive income	$ 23,310	$ 18,781	$ 23,734	$ 33,320

NOTE 9 – DEBT

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

(In thousands)	May 31, 2009	November 30, 2008
Fixed-rate notes:		
5.36%, payable in annual principal installments of $10,000	$ 10,000	$ 10,000
4.25%, payable in Singapore dollars, in annual principal installments of $7,056	28,223	27,052
Variable-rate industrial development bonds:		
payable in 2016 (1.05% at May 31, 2009)	7,200	7,200
payable in 2021 (1.05% at May 31, 2009)	8,500	8,500
Variable-rate bank revolving credit facility (10.15% at May 31, 2009)	467	-
Total long-term debt	54,390	52,752

Less current portion		(17,056)		(16,763)
Long-term debt, less current portion	$	37,334	$	35,989

The Company maintains a $100,000,000 revolving credit facility with six banks (the "Revolver"). At May 31, 2009, $18,167,000 of the Revolver was utilized for standby letters of credit; therefore, $81,833,000 was available under 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 .75% to 1.625%, based on the Company's financial condition and performance), at any time until September 2010, when all borrowings under the Revolver must be repaid.

Table of Contents

The 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 May 31, 2009. The Revolver, the 4.25% term notes and the 5.36% 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 .60%. Certain note agreements contain provisions regarding the Company's ability to grant security interests or liens in association with other debt instruments. If the Company grants such a security interest or lien, then such notes will be collateralized equally and ratably as long as such other debt shall be collateralized.

NOTE 10 – 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 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. 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 joint venture 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 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		Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008	May 31, 2009	June 1, 2008
Sales				
Fiberglass-Composite Pipe	$ 55,532	$ 69,388	$ 112,273	$ 135,231
Water Transmission	42,251	44,026	93,794	85,010
Infrastructure Products	35,147	46,791	72,866	90,119
Eliminations	(10)	(412)	(11)	(798)
Total Sales	$ 132,920	$ 159,793	$ 278,922	$ 309,562
Income Before Interest, Income Taxes and Equity in (Loss)/Earnings of Joint Venture				
Fiberglass-Composite Pipe	$ 16,490	$ 17,865	$ 31,136	$ 34,500
Water Transmission	2,182	(1,775)	2,695	(5,714)
Infrastructure Products	3,059	6,640	6,843	12,934
Corporate and unallocated	(8,627)	(8,274)	(18,586)	(16,639)
Total Income Before Interest, Income Taxes and Equity in (Loss)/Earnings of Joint Venture	$ 13,104	$ 14,456	$ 22,088	$ 25,081

(In thousands)	May 31, 2009	November 30, 2008
Assets		
Fiberglass-Composite Pipe	$ 286,905	$ 303,672
Water Transmission	198,771	235,664
Infrastructure Products	97,186	107,792
Corporate and unallocated	305,630	227,543
Eliminations	(149,528)	(148,349)
Total Assets	$ 738,964	$ 726,322

Table of Contents

NOTE 11 – COMMITMENTS AND CONTINGENCIES

In April 2004, Sable Offshore Energy Inc. ("Sable"), as agent for certain owners of the Sable Offshore Energy Project, brought an action against various coatings suppliers and application contractors, including the Company and its subsidiary, Ameron B.V., in the Supreme Court of Nova Scotia, Canada. Sable seeks damages allegedly sustained by it resulting from performance problems with several coating systems used on the Sable Offshore Energy Project, including coatings products furnished by the Company and Ameron B.V. Sable's originating notice and statement of claim alleged a claim for damages in an unspecified amount; however, Sable has since alleged that its claim for damages against all defendants is approximately 440,000,000 Canadian dollars, a figure which the Company and Ameron B.V. contest. This matter is in discovery, and no trial date has yet been established. The Company is vigorously defending itself in this action. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to this case.

In May 2003, Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc. (collectively "Dominion") brought an action against the Company in Civil District Court for the Parish of Orleans, Louisiana as owners of an offshore production facility known as a SPAR. Dominion seeks damages allegedly sustained by it resulting from delays in delivery of the SPAR caused by the removal and replacement of certain coatings containing lead and/or lead chromate for which the manufacturer of the SPAR alleged the Company was responsible. Dominion contends that the Company made certain misrepresentations and warranties to Dominion concerning the lead-free nature of those coatings. Dominion's petition as filed alleged a claim for damages in an unspecified amount; however, Dominion's economic expert has since estimated Dominion's damages at approximately $128,000,000, a figure which the Company contests. Although this matter is still in discovery, trial is currently scheduled to commence on October 26, 2009. The Company is vigorously defending itself in this action. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to this case.

In July 2004, BP America Production Company ("BP America") brought an action against the Company in the 24th Judicial District Court, Parish of Jefferson, Louisiana in connection with fiberglass pipe sold by the Company for installation in four offshore platforms constructed for BP America. The plaintiff seeks damages allegedly sustained by it resulting from claimed defects in such pipe. BP America's petition as filed alleged a claim against the Company for rescission, products liability, negligence, breach of contract and warranty and for damages in an amount of not less than $20,000,000, a figure which the Company contests. This matter is in discovery, and no trial date has yet been established. The Company is vigorously defending itself in this action. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to this case.

In June 2006, the Cawelo, California Water District ("Cawelo") brought an action against the Company in Kern County Superior Court, California in connection with concrete pipe sold by the Company in 1995 for a wastewater recovery pipeline in such county. Cawelo seeks damages allegedly sustained by it resulting from the failure of such pipe in 2004. Cawelo's petition as filed alleged a claim against the Company for products liability, negligence, breach of express warranty and breach of written contract and for damages in an amount of not less than $8,000,000, a figure which the Company contests. This matter is in discovery, and no trial date has yet been established. The Company is vigorously defending itself in this action. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to this case.

The Company is a defendant in a number of asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others. As of May 31, 2009, the Company was a defendant in 26 asbestos-related cases, compared to 24 cases as of March 1, 2009. During the quarter ended May 31, 2009, there were five new asbestos-related cases, one case dismissed, two cases settled, no judgments and aggregate net costs and expenses of $141,000. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect

to these cases.

In December, 2008, the Company received from the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") a Requirement To Furnish Information regarding transactions involving Iran. The Company intends to cooperate fully with OFAC on this matter. With the assistance of outside counsel, the Company is conducting an internal inquiry to enable it to respond to OFAC. In the six months ended May 31, 2009, the Company incurred $2,400,000 for legal and professional fees in connection with this inquiry. Based upon the information available to it at this time, the Company is not able to predict the outcome of this matter. If the Company violated governmental regulations, material fines and penalties could be imposed.

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

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

NOTE 12 – PRODUCT WARRANTIES AND GUARANTEES

The Company's product warranty accrual reflects Management's estimate of probable liability associated with product warranties. The Company generally provides a standard product warranty covering defects for a period not exceeding one year from date of purchase. Management establishes product warranty accruals based on historical experience and other currently-available information. Changes in the product warranty accrual were as follows:

	Six Months Ended	
(In thousands)	May 31, 2009	June 1, 2008
Balance, beginning of period	$ 3,238	$ 3,590
Payments	(1,992)	(534)
Warranties issued during the period	1,699	(676)
Balance, end of period	$ 2,945	$ 2,380

NOTE 13 – GOODWILL

Changes in the Company’s carrying amount of goodwill by business segment were as follows:

(In thousands)	November 30, 2008	Foreign Currency Translation Adjustments	May 31, 2009
Fiberglass-Composite Pipe	$ 1,440	$ -	$ 1,440
Water Transmission	360	3	363
Infrastructure Products	201	-	201
	$ 2,001	$ 3	$ 2,004

NOTE 14 – INCENTIVE STOCK COMPENSATION PLANS

As of May 31, 2009, the Company had outstanding grants under the following share-based compensation plans:

- 2001 Stock Incentive Plan ("2001 Plan") - The 2001 Plan was terminated in 2004, except as to the outstanding stock options and restricted stock grants. A total of 380,000 new shares of Common Stock were made available for awards to key employees and non-employee directors. Non-employee directors were granted options under the 2001 Plan to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options vested in equal annual installments over four years. Such options terminate ten years from the date of grant.

- 2004 Stock Incentive Plan ("2004 Plan") - The 2004 Plan serves as the successor to the 2001 Plan and supersedes that plan. A total of 525,000 new shares of Common Stock were made available for awards to key employees and

non-employee directors and may include, but are not limited to, stock options and restricted stock grants. Non-employee directors were granted options under the 2004 Plan to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options vest in equal annual installments over four years and terminate ten years from the date of grant. Key employees and non-employee directors were granted restricted stock under the 2004 Plan. Such restricted stock grants typically vest in equal annual installments over three years. During the six months ended May 31, 2009, the Company granted 16,200 restricted shares to key employees with a fair value on the grant date of $806,000 and 12,000 restricted shares to non-employee directors with a fair value on the grant date of $575,000. During the six months ended June 1, 2008, the Company granted 19,000 restricted shares to key employees with a fair value on the grant date of $1,976,000 and 7,200 restricted shares and 3,802 stock options to non-employee directors with fair values on the grant dates of $675,000 and $101,000, respectively.

Table of Contents
13

In addition to the above, in 2001, non-employee directors were granted options to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options vested in equal annual installments over four years and terminate ten years from the date of grant. At May 31, 2009, there were 7,000 shares subject to such stock options.

The Company's income before income taxes and equity in earnings of joint venture for the three months ended May 31, 2009 and June 1, 2008 included compensation expenses of $1,347,000 and $1,777,000, respectively, related to stock-based compensation arrangements. Tax benefits related to these expenses were $525,000 and $693,000, respectively. For the six months ended May 31, 2009 and June 1, 2008, compensation expenses were $2,362,000 and $3,633,000, respectively, related to stock-based compensation arrangements. Tax benefits related to these expenses were $921,000 and $1,417,000, respectively. There were no capitalized share-based compensation costs for the three and six months ended May 31, 2009 and June 1, 2008.

The following table summarizes the stock option activity for the six months ended May 31, 2009:

Options	Number of Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at November 30, 2008	36,302	$ 37.61		
Granted	-	-		
Exercised	-	-		
Outstanding at May 31, 2009	36,302	37.61	4.11	$ 822
Options exercisable at May 31, 2009	33,451	32.18	3.72	$ 822

For the three and six months ended May 31, 2009, no options were granted, forfeited or expired. For the three and six months ended June 1, 2008, 3,802 options were granted and no options were forfeited or expired. The aggregate intrinsic value in the table above represents the total pretax intrinsic value, which is the difference between the closing price of the Company’s Common Stock on the last trading day of the second quarter of 2009 and the exercise price times the number of shares that would have been received by the option holders if the options were exercised on such trading day. This amount will change based on the fair market value of the Company's Common Stock. The aggregate intrinsic value of stock options exercised during the three and six months ended June 1, 2008 were $87,000 and $1,789,000, respectively. As of May 31, 2009, unrecognized compensation cost related to stock-based compensation arrangements totaled $3,839,000, which is expected to be recognized over a weighted-average period of 2.75 years.

For the three and six months ended May 31, 2009, 12,000 and 28,200 shares of restricted stock were granted. The weighted-average grant-date, fair value of such restricted stock was $47.90 and $49.29 per share, respectively. The fair value of restricted stock, which vested during the three and six months ended May 31, 2009, was $326,000 and $2,678,000, respectively. For the three and six months ended June 1, 2008, 10,200 and 26,200 shares of restricted stock, respectively were granted. The weighted-average grant-date, fair value of such restricted stock was $99.21 and $101.70 per share, respectively. The fair value of restricted stock, which vested during the three and six months ended June 1, 2008, was $356,550 and $5,844,000, respectively.

Net cash proceeds from the exercise of stock options during the three and six months ended June 1, 2008 was $50,000 and $810,000, respectively. The Company's policy is to issue shares from its authorized shares upon the exercise of

stock options.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 15 – EMPLOYEE BENEFIT PLANS

For the three and six months ended May 31, 2009 and June 1, 2008, net pension and postretirement costs were comprised of the following:

Employee Benefit Plans (Three Months Ended May 31, 2009 and June 1, 2008)

	Pension Benefits				U.S. Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
(In thousands)	2009	2008	2009	2008	2009	2008
Service cost	$ 690	$ 744	$ 67	$ 110	$ 20	$ 24
Interest cost	3,089	2,888	561	636	56	52
Expected return on plan assets	(2,860)	(3,928)	(404)	(423)	(7)	(8)
Amortization of unrecognized prior service cost	18	29	66	77	5	5
Amortization of unrecognized net transition obligation	-	-	-	-	12	12
Amortization of accumulated loss	1,451	284	(167)	-	1	3
Net periodic cost	$ 2,388	$ 17	$ 123	$ 400	$ 87	$ 88

Employee Benefit Plans (Six Months Ended May 31, 2009 and June 1, 2008)

	Pension Benefits				U.S. Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
(In thousands)	2009	2008	2009	2008	2009	2008
Service cost	$ 1,380	$ 1,488	$ 134	$ 220	$ 40	$ 48
Interest cost	6,178	5,776	1,122	1,272	112	104
Expected return on plan assets	(5,720)	(7,856)	(808)	(846)	(14)	(16)
Amortization of unrecognized prior service cost	36	58	132	154	10	10
Amortization of unrecognized net transition obligation	-	-	-	-	24	24
Amortization of accumulated loss	2,902	568	(334)	-	2	6
Net periodic cost	$ 4,776	$ 34	$ 246	$ 800	$ 174	$ 176

The Company contributed $2,500,000 to the non-U.S. pension plans and did not make any material contributions to the U.S. pension plan in the first six months of 2009. The Company expects to contribute up to $8,500,000 to its U.S pension plan and an additional $90,000 to its non-US pension plans during the remainder of 2009.

NOTE 16 – PROVISION FOR INCOME TAXES

Income taxes decreased to $1,975,000 in the second quarter of 2009, from $5,000,000 in the same period of 2008. Income taxes decreased to $4,619,000 in the first six months of 2009 from $8,929,000 in the comparable period in 2008. The effective tax rate decreased to 21.0% in 2009, from 35.0% in 2008. The effective rate in 2009 was reduced by tax benefits of $1,476,000 recorded in the second quarter of 2009 of which $1,199,000 was associated with the adjustment to a deferred tax liability related to earnings and profits from the Company’s New Zealand

subsidiary and $277,000 was related to a decrease in the valuation allowance related to net operating losses of the Company's Netherlands subsidiary. This $1,199,000 represented a correction of an amount recorded in prior period financial statements. Management believes this amount to be immaterial to prior interim and annual financial statements. The effective tax rates for the first six months of 2009 and 2008 were based on forecasted full-year earnings and the anticipated mix of domestic and foreign earnings and the above discrete items. Income from certain foreign operations and joint ventures is taxed at rates that are lower than the U.S. statutory tax rates. The effective tax rate for the first half of 2009 is not necessarily indicative of the tax rate for the full fiscal year.

Table of Contents

At May 31, 2009, the total amount of gross unrecognized tax benefits, excluding interest, was $8,199,000. This amount is not reduced for offsetting benefits in other tax jurisdictions and for the benefit of future tax deductions that would arise as a result of settling such liabilities as recorded. Of this amount, $4,420,000 would reduce the Company's income tax expense and effective tax rate, after giving effect to offsetting benefits from other tax jurisdictions and resulting future deductions. At November 30, 2008, the total amount of gross unrecognized tax benefits, excluding interest, was $7,416,000.

The Company anticipates that it is reasonably possible that the total amount of unrecognized tax benefits may significantly change within the succeeding 12 months as a result of the expiration of certain state statutes of limitations for examination and the settlement of certain state audits. The Company estimates that these events could reasonably result in a possible decrease in unrecognized tax benefits of $1,315,000.

The Company accrues interest and penalties related to unrecognized tax benefits as income tax expense. Accruals totaling $1,359,000 were recorded as a liability in the Company's consolidated balance sheet at May 31, 2009, compared to $1,098,000 as of November 30, 2008.

The Company's federal income tax returns remain subject to examination for the 2007 and forward tax years. The Company files multiple state income tax returns, including California, Hawaii, Arizona and Texas, with open statutes ranging from 2000 through 2008. The Company also files multiple foreign income tax returns and remains subject to examination in major foreign jurisdictions, including the Netherlands, Singapore and Malaysia, for years ranging from 1996 through 2008.

NOTE 17 – FAIR VALUE MEASURMENTS

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that the Company believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial

instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over the counter forwards, options and repurchase agreements.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in Management's best estimate of fair value from the perspective of a market participant. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. At each balance sheet date, the Company performs an analysis of all instruments subject to SFAS No. 157 and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Assets and liabilities measured at fair value on a recurring basis included the following as of May 31, 2009:

	Fair Value Measurements Using			Assets At Fair Value
(In thousands)	Level 1	Level 2	Level 3	
Assets				
Derivative assets	$ -	$ 3	$ -	$ 3
Total assets	$ -	$ 3	$ -	$ 3

Assets and liabilities measured at fair value on a recurring basis included the following as of June 1, 2008:

	Fair Value Measurements Using			Liabilities At Fair Value
(In thousands)	Level 1	Level 2	Level 3	
Liabilities				
Derivative liabilities	$ -	$ 13	$ -	$ 13
Total liabilities	$ -	$ 13	$ -	$ 13

Derivatives

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. From time to time, derivative financial instruments, primarily foreign exchange contracts, are used by the Company to reduce those risks. The Company does not hold or issue financial or derivative financial instruments for trading or speculative purposes. The Company and its subsidiaries complete transactions in currencies other than their functional currencies. The Company's primary objective with respect to currency risk is to reduce net income volatility that would otherwise occur due to exchange-rate fluctuations.

In order to minimize the risk of gain or loss due to exchange rates, the Company uses foreign currency derivatives. As of May 31, 2009, the Company held one foreign currency forward contract aggregating $3,000,000 U.S. dollars, hedging Singapore dollars, and no other contracts. Such contract had a fair value gain of $2,500 as of May 31, 2009 based on quotations from financial institutions. As of June 1, 2008, the Company held 19 foreign currency forward contracts in the amount of $10,000,000 U.S. dollars, hedging Singapore dollars, and such instruments had a fair value loss of $13,000 based on quotations from the financial institutions as of June 1, 2008. Derivatives are reported as receivables on the balance sheet and recognized as other income, net, on the income statement.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Ameron International Corporation ("Ameron", the "Company", the "Registrant" or the "Corporation") is a multinational manufacturer of highly-engineered products and materials for the chemical, industrial, energy, transportation and infrastructure markets. Ameron is a leading producer of water transmission lines; fiberglass-composite pipe for transporting oil, chemicals and corrosive fluids and specialized materials; and products used in infrastructure projects. The Company operates businesses in North America, South America, Europe and Asia. The Company has three reportable segments. The Fiberglass-Composite Pipe Group manufactures and markets filament-wound and molded composite fiberglass pipe, tubing, fittings and well screens. The Water Transmission Group manufactures and supplies concrete and steel pressure pipe, concrete non-pressure pipe, protective linings for pipe and fabricated steel products, such as large-diameter wind towers. The Infrastructure Products Group consists of two operating segments, which are aggregated: the Hawaii Division which manufactures and sells ready-mix concrete, sand, aggregates, concrete pipe and culverts and the Pole Products Division which manufactures and sells concrete and steel lighting and traffic poles. The markets served by the Fiberglass-Composite Pipe Group are worldwide in scope. The Water Transmission Group serves primarily the western U.S. for pipe and sells wind towers primarily west of the Mississippi river. The Infrastructure Products Group's quarry and ready-mix business operates exclusively in Hawaii, and poles are sold throughout the U.S. Ameron also participates in several joint-venture companies, directly in the U.S. and Saudi Arabia, and indirectly in Egypt.

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

A summary of the Company's significant accounting policies is provided in Note (1) of the Notes to Consolidated Financial Statements, under Part II, Item 8, in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008 ("2008 Annual Report"). In addition, 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 and all wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded in accumulated other comprehensive income/(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 income/(loss). The timing of repayments of intercompany advances could materially impact the Company's consolidated financial statements. Additionally, earnings of foreign subsidiaries are often permanently reinvested outside the U.S. Unforeseen repatriation of such

earnings could result in significant unrecognized U.S. tax liability. Gains or losses resulting from foreign currency transactions are included in other income, net.

Table of Contents

Revenue for the Fiberglass-Composite Pipe and Infrastructure Products segments is recognized when risk of ownership and title pass, primarily at the time goods are shipped, provided that an agreement exists between the customer and the Company, the price is fixed or determinable and collection is reasonably assured. Revenue is recognized for the Water Transmission Group primarily under the percentage-of-completion method, typically based on completed units of production, since products are manufactured under enforceable and binding construction contracts, typically are designed for specific applications, are not interchangeable between projects, and are not manufactured for stock. Revenue for the period is determined by multiplying total estimated contract revenue by the percentage-of-completion of the contract and then subtracting the amount of previously recognized revenue. Cost of earned revenue is computed by multiplying estimated contract completion cost by the percentage-of-completion of the contract and then subtracting the amount of previously recognized cost. 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 two 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. Costs attributable to unpriced change orders are treated as costs of contract performance in the period, and contract revenue is recognized if recovery is probable. Disputed or unapproved change orders are treated as claims. Recognition of amounts of additional contract revenue relating to claims occurs when amounts have been received or awarded with recognition based on the percentage-of-completion methodology.

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

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out ("FIFO") method. Certain steel inventories used by the Water Transmission Group are valued using the last-in, first-out ("LIFO") method. Significant changes in steel levels or costs could materially impact the Company's financial statements. Reserves are established for excess, obsolete and rework inventories based on 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 a significant worsening of customer credit quality could materially impact the Company’s consolidated financial statements.