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AMERON INTERNATIONAL CORP
Form 10-Q
April 13, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2001

OR

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

For the transition period from _____ to _____

Commission File No. 1 - 9102

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0100596
(I.R.S. Employer
Identification No.)

245 South Los Robles Avenue
Pasadena, California 91101-2820
(Address of principal executive offices)
Telephone Number (626) 683-4000

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 No

The number of shares outstanding of Common Stock, \$2.50 par value, was 3,869,657 on March 31, 2001. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Ameron International Corporation and Subsidiaries
Consolidated Statements of Income
(In thousands, except share and per share data)
(Unaudited)

| | Three Months Ended February 28 and 29, | |
|---|---|------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Sales | \$ 121,605 | \$ 121,365 |
| Cost of Sales | (91,706) | (93,312) |
| Gross Profit | 29,899 | 28,053 |
| Selling, General and Administrative Expenses | (26,498) | (27,142) |
| Other Income, net | 1,808 | 3,633 |
| | ----- | ----- |

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| | | |
|--|-----------|-----------|
| Income before Interest and Income Taxes | 5,209 | 4,544 |
| Interest Income | 53 | 30 |
| Interest Expense | (3,068) | (3,306) |
| | ----- | ----- |
| Income before Income Taxes | 2,194 | 1,268 |
| Provision for Income Taxes | (614) | (317) |
| | ----- | ----- |
| Net Income | \$ 1,580 | \$ 951 |
| | ===== | ===== |
| Net Income per Share (Basic) | \$.41 | \$.24 |
| | ===== | ===== |
| Net Income per Share (Diluted) | \$.41 | \$.24 |
| | ===== | ===== |
| Weighted Average Shares(Basic) | 3,869,357 | 3,991,912 |
| | ===== | ===== |
| Weighted Average Shares (Diluted) | 3,893,968 | 4,002,853 |
| | ===== | ===== |
| Cash Dividends per Share | \$.32 | \$.32 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

| | February 28, 2001 (Unaudited) | November 30, 2000 |
|---|-------------------------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 12,924 | \$ 11,514 |
| Receivables, Less Allowances of \$6,288 in 2001 and \$6,616 in 2000 | 123,017 | 139,961 |
| Inventories | 87,985 | 82,470 |
| Deferred Income Taxes | 23,751 | 23,720 |
| Prepaid Expenses and Other Current Assets | 7,648 | 6,305 |
| | ----- | ----- |
| Total Current Assets | 255,325 | 263,970 |
| Investments, Advances and Equity in Undistributed Earnings of Joint Ventures | 21,673 | 21,773 |
| Property, Plant and Equipment, Net | 148,656 | 145,196 |
| Other Assets | 49,247 | 47,510 |
| | ----- | ----- |
| Total Assets | \$ 474,901 | \$ 478,449 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Short-Term Borrowings | \$ 4,463 | \$ 5,001 |

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| | | |
|--|------------|------------|
| Current Portion of Long-Term Debt | 8,878 | 8,848 |
| Trade Payables | 40,186 | 41,127 |
| Accrued Liabilities | 49,907 | 58,265 |
| Income Taxes Payable | 16,191 | 15,103 |
| | ----- | ----- |
| Total Current Liabilities | 119,625 | 128,344 |
| Long-Term Debt, Less Current Portion | 141,696 | 140,718 |
| Other Long-Term Liabilities | 27,895 | 26,957 |
| | ----- | ----- |
| Total Liabilities | 289,216 | 296,019 |
| | ----- | ----- |
| Stockholders' Equity | | |
| Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 3,869,357 Shares in 2001 and 2000, | | |
| Net of Treasury Shares | 13,007 | 13,007 |
| Additional Paid-In Capital | 18,532 | 17,857 |
| Retained Earnings | 224,962 | 224,620 |
| Accumulated Other Comprehensive Loss | (22,144) | (24,382) |
| Less Treasury Stock (1,333,655 Shares in 2001 and 2000) | (48,672) | (48,672) |
| | ----- | ----- |
| Total Stockholders' Equity | 185,685 | 182,430 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 474,901 | \$ 478,449 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended February 28 and 29, | |
|--|---|---------|
| | 2001 | 2000 |
| | ----- | ----- |
| Cash Flows from Operating Activities | | |
| Net Income | \$ 1,580 | \$ 951 |
| Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation | 4,375 | 4,046 |
| Amortization | 198 | 421 |
| Deferred Income Taxes | 113 | 156 |
| Equity in Earnings of Joint Ventures | (999) | (1,765) |
| Dividends from Joint Ventures | 1,368 | 3,957 |
| Loss (Gain) from Sale of Assets | 56 | (17) |
| Other Noncash Expenses | 675 | -- |
| Changes in Operating Assets and Liabilities: | | |
| Receivables | 18,219 | 739 |
| Inventories | (5,424) | (1,607) |
| Prepaid Expenses and Other Current Assets | (1,315) | (2,165) |
| Trade Payables, Accrued Liabilities and | | |

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| | | |
|---|-----------|----------|
| Income Taxes Payable | (8,667) | (5,062) |
| Other Long-Term Assets and Liabilities | (1,032) | (2,375) |
| | ----- | ----- |
| Net Cash Provided by (Used In) | | |
| Operating Activities | 9,147 | (2,721) |
| | ----- | ----- |
| Cash Flows from Investing Activities | | |
| Proceeds from Sale of Property, Plant and Equipment | 109 | 75 |
| Additions to Property, Plant and Equipment | (6,950) | (4,126) |
| | ----- | ----- |
| Net Cash Used in Investing Activities | (6,841) | (4,051) |
| | ----- | ----- |
| Cash Flows from Financing Activities | | |
| Net Change in Short-Term Borrowings | (402) | (217) |
| Issuance of Debt | 2,418 | 6,700 |
| Repayment of Debt | (1,900) | (1,142) |
| Dividends on Common Stock | (1,238) | (1,277) |
| | ----- | ----- |
| Net Cash (Used in) Provided By | | |
| Financing Activities | (1,122) | 4,064 |
| | ----- | ----- |
| Effect of Exchange Rate Changes | | |
| on Cash and Cash Equivalents | 226 | 146 |
| | ----- | ----- |
| Net Change in Cash and Cash Equivalents | 1,410 | (2,562) |
| Cash and Cash Equivalents at Beginning of Period | 11,514 | 10,521 |
| | ----- | ----- |
| Cash and Cash Equivalents at End of Period | \$ 12,924 | \$ 7,959 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

Note 1. Basis Of Presentation

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation (the "Company" or "Ameron") at February 28, 2001, and its consolidated results of operations and consolidated cash flows for the three months ended February 28, 2001 and February 29, 2000. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in Ameron's Annual Report on Form 10-K for the year ended November 30, 2000.

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Note 2. Accounting Change

Effective December 1, 2000, Ameron adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company uses derivative products, such as forward and option contracts, primarily to hedge the foreign currency market exposures which affect certain assets and liabilities and forecasted transactions with customers and vendors. The Company designates such derivatives primarily as fair value hedges. As of both February 28, 2001 and December 1, 2000, the fair value of derivatives held by the Company were not significant. Additionally, the adoption of SFAS No. 133 at December 1, 2000 did not result in a cumulative adjustment to either income or other comprehensive income for a change in accounting principle.

In 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," and further amended it to defer the effective date. SAB 101 summarized certain of the SEC's views on the application of generally accepted accounting principles to revenue recognition. The Company is required to adopt the provisions of SAB 101 no later than November 30, 2001. The Company does not believe SAB 101 will have a material impact on the financial statements.

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Note 3. Inventories

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

| | February 28, 2001 | November 30, 2000 |
|------------------------|----------------------|----------------------|
| | ----- | ----- |
| Finished Products | \$58,652 | \$51,570 |
| Products in Process | 10,698 | 18,788 |
| Materials and Supplies | 18,635 | 12,112 |
| | ----- | ----- |
| | \$87,985 | \$82,470 |
| | ===== | ===== |

Note 4. Supplemental Disclosure of Cash Flow Information

| | Three Months Ended February 28 and 29, | |
|-------------------|---|---------|
| | 2001 | 2000 |
| | ----- | ----- |
| Interest Paid | \$3,581 | \$1,795 |
| Income Taxes Paid | \$ 608 | \$2,351 |

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Note 5. Joint Ventures

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

| | Three Months Ended February 28 and 29, | |
|--------------|---|----------|
| | 2001 | 2000 |
| Net Sales | \$52,930 | \$55,404 |
| Gross Profit | \$15,571 | \$17,985 |
| Net Income | \$ 6,718 | \$ 7,905 |

Amounts shown above represent the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three months ended December 31, 2000 and 1999 and TAMCO for the three months ended February 28, 2001 and February 29, 2000. Ameron's equity in earnings of joint ventures is included in other income.

Note 6. Net Income Per Share

Net income per basic share is computed on the basis of the weighted average number of common shares outstanding each period. Net income per diluted share is computed on the basis of the weighted average total of common shares outstanding each period plus the effect of outstanding stock options, excluding those that would be anti-dilutive, using the treasury stock method.

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

| | Three Months Ended February 28 and 29, | |
|--|---|--------------------|
| | 2001 | 2000 |
| Basic Average Common Shares Outstanding | 3,869,357 | 3,991,912 |
| Dilutive Effect of Stock Options | 24,611 | 10,941 |
| Diluted Average Common Shares Outstanding | 3,893,968 ===== | 4,002,853 ===== |

Note 7. Other Comprehensive Income

Comprehensive income was computed as follows:

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| | Three Months Ended February 28 and 29, | |
|--|---|------------|
| | 2001 | 2000 |
| Net Income | \$ 1,580 | \$ 951 |
| Foreign Currency Translation Adjustment | 2,238 | (2,810) |
| Comprehensive Income/(Loss) | \$ 3,818 | \$ (1,859) |

Note 8. Debt

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

| | February 28, 2001 | November 30, 2000 |
|--|----------------------|----------------------|
| Fixed-rate unsecured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333, commencing in 2001 | \$ 50,000 | \$ 50,000 |
| Variable-rate industrial development bonds, Payable in 2016 (3.30% at February 28, 2001) | 7,200 | 7,200 |
| Variable-rate unsecured bank revolving credit facilities (approximately 5.99% at February 28, 2001) | 92,693 | 91,594 |
| Variable-rate unsecured bank loan, payable in Dutch guilders, with annual principal installments of approximately \$545 (5.76% at February 28, 2001) | 681 | 772 |
| | 150,574 | 149,566 |
| Less Current portion | (8,878) | (8,848) |
| | \$ 141,696 | \$ 140,718 |

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Note 9. Segment Information

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

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| | Three Months Ended February 28 and 29, | |
|---|---|----------------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Sales | | |
| Performance Coatings & Finishes | \$ 42,745 | \$ 41,700 |
| Fiberglass-Composite Pipe | 23,692 | 21,577 |
| Water Transmission | 28,098 | 33,391 |
| Infrastructure Products | 27,518 | 24,731 |
| Eliminations | (448) | (34) |
| | ----- | ----- |
| Total Sales | \$ 121,605 | \$ 121,365 |
| | ===== | ===== |
| Income (Loss) Before Interest and Income Taxes | | |
| Performance Coatings & Finishes | \$ 104 | \$ (428) |
| Fiberglass-Composite Pipe | 2,241 | 1,369 |
| Water Transmission | 3,442 | 4,507 |
| Infrastructure Products | 3,087 | 2,495 |
| Corporate & Unallocated | (3,665) | (3,399) |
| | ----- | ----- |
| Total Income Before Interest and Income Taxes | \$ 5,209 | \$ 4,544 |
| | ===== | ===== |
| | February 28, 2001 | November 30, 2000 |
| | ----- | ----- |
| Assets | | |
| Performance Coatings & Finishes | \$ 135,780 | \$ 131,300 |
| Fiberglass-Composite Pipe | 128,537 | 127,904 |
| Water Transmission | 98,492 | 112,254 |
| Infrastructure Products | 65,729 | 61,503 |
| Corporate & Unallocated | 174,840 | 169,212 |
| Eliminations | (128,477) | (123,724) |
| | ----- | ----- |
| Total Assets | \$ 474,901 | \$ 478,449 |
| | ===== | ===== |

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PART I. FINANCIAL INFORMATION

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

Ameron International Corporation and Subsidiaries
February 28, 2001

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INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2000 Annual Report on Form 10-K. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of fiscal 2001 the Company generated \$9.1 million of cash from operating activities compared to using \$2.7 million for the same period in 2000. The higher operating cash flow came principally from collection of receivables which primarily increased because of the strong fourth quarter 2000 sales of the Water Transmission Group.

Cash used in investing activities consisted of capital expenditures for normal replacement and upgrades of machinery and equipment and the construction of a new pole manufacturing plant in Anniston, Alabama. Management estimates that capital expenditures during fiscal 2001 will be between \$15.0 million and \$25.0 million. Capital expenditures will be funded by existing cash balances, cash generated from operations and existing lines of credit.

Cash used in financing activities was \$1.1 million, primarily due to the payment of common stock dividends.

Cash and cash equivalents at February 28, 2001 totaled \$12.9 million, an increase of \$1.4 million from November 30, 2000.

At February 28, 2001 the Company had approximately \$105.0 million in unused committed and uncommitted credit lines available from foreign and domestic banks.

The Company believes that cash and cash equivalents on hand, anticipated cash flows from operations and funds from existing lines of credit will be sufficient to meet future operating requirements.

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RESULTS OF OPERATIONS - FIRST QUARTER

The Company earned 41 cents per diluted share on sales of \$121.6 million for the first quarter of fiscal 2001, compared to earnings of 24 cents per diluted share on sales of \$121.4 million for the same period in 2000. The slight increase was attributed primarily to higher sales and profitability of the Performance Coatings & Finishes, Fiberglass-Composite Pipe, and Infrastructure Products Groups, offset by the lower sales and profitability of the Water Transmission business and Ameron's steel joint venture, TAMCO.

As expected, sales of the Water Transmission Group decreased \$5.3 million in the first quarter of 2001, compared to the same period of 2000. Sales were lower because of temporarily slower market activity, as reflected in a lower backlog at the beginning of the quarter. Profitability decreased \$1.1 million in the first quarter of 2001, compared to the first quarter of 2000, as a result of lower sales. Water Transmission should benefit from an improved backlog in the second half of 2001.

Sales of the Company's worldwide Fiberglass-Composite Pipe business increased \$2.1 million in the first quarter of 2001, compared to the first quarter of 2000, primarily due to the continued worldwide demand for oil field piping. Profits increased by \$900,000 in the first quarter of 2001, compared to the first quarter of 2000, due to higher sales. Overall, the outlook for

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Fiberglass-Composite Pipe remains strong in 2001.

Sales of the Performance Coatings & Finishes Group increased \$1.0 million in the first quarter of 2001, compared to the first quarter of 2000. The increase was due primarily to the increased worldwide activity in key marine and offshore markets. Performance Coatings & Finishes' results of operations improved by \$500,000 because of higher sales. An improvement of market conditions is expected to continue in 2001.

Infrastructure Products Group had \$2.8 million higher sales, and \$600,000 higher profits in the first quarter of 2001 primarily due to the normalized business activities in Hawaii, which suffered from a strike in the same period of 2000. Ameron's pole business declined slightly due to the start-up costs of a new concrete pole plant in Alabama.

Selling, General and Administrative expenses were comparable to the prior year both in dollars and as a percentage of sales. Included in selling, general and administrative expenses for the quarter was \$590,000 of expense related to extending the life of certain stock options.

Other income declined because of lower equity income of \$800,000 and foreign exchange losses of \$800,000. Equity income was lower as TAMCO was impacted by the power crisis in California.

The effective tax rate was 28% in the first quarter of 2001, compared to 25% for the same period in 2000. The effective tax rate reflects the anticipated income taxes on income from domestic operations, as well as foreign operations and joint ventures, which are taxed at rates lower than U.S. statutory tax rates.

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Item 3. Quantitative and Qualitative Market Risk Disclosure

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's Annual Report on Form 10-K for the year ended November 30, 2000.

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

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

Part II. OTHER INFORMATION

Item 2. Changes in Securities

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$8.9 million of consolidated retained earnings were not restricted at February 28, 2001.

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Item 6. Exhibits and Reports on Form 8-K

No report on Form 8-K was filed for the Company in the first quarter of 2001.

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Signature Page

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

Ameron International Corporation
Date: April 13, 2001

/s/ Gary Wagner

Gary Wagner
Senior Vice President,
Chief Financial Officer

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