

AMERON INTERNATIONAL CORP  
Form 10-Q  
April 08, 2005

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended February 27, 2005

or

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

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

Commission File No. 1 - 9102

**AMERON INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of

incorporation or organization)

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

**(626) 683-4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes /x/ No / /

Indicate by check mark whether the registrant is an accelerated filer (as indicated in Rule 12b-2 of the Exchange Act). Yes/x/ No / /

The number of shares outstanding of Common Stock, \$2.50 par value, was 8,470,371 on February 27, 2005. No other class of Common Stock exists.

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### 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)**

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	Three Months Ended	
	February 27, 2005	February 29, 2004
Sales	\$ 138,812	\$ 129,668
Cost of Sales	(105,800)	(99,729)
Gross Profit	33,012	29,939
Selling, General and Administrative Expenses	(32,975)	(33,316)
Other Income, Net	1,167	566
Income/(Loss) before Interest, Income Taxes and Equity in Earnings of Joint Venture	1,204	(2,811)
Interest Expense, Net	(1,378)	(1,771)
Loss before Income Taxes and Equity in Earnings of Joint Venture	(174)	(4,582)
Income Tax Benefit	61	1,345
Loss before Equity in Earnings of Joint Venture	(113)	(3,237)
Equity in Earnings of Joint Venture, Net of Taxes	594	484
Net Income/(Loss)	\$ 481	\$ (2,753)
Net Income/(Loss) per Share (Basic)	\$ .06	\$ (.34)
Net Income/(Loss) per Share (Diluted)	\$ .06	\$ (.34)
Weighted-Average Shares (Basic)	8,342,338	8,163,420
Weighted-Average Shares (Diluted)	8,519,859	8,163,420
Cash Dividends per Share	\$ .20	\$ .20

See accompanying notes to consolidated financial statements.

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

February 27,      November 30,  
2005                      2004  
(Unaudited)

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ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 38,384	\$ 30,124
Receivables, Less Allowances of \$7,428 in 2005 and \$7,984 in 2004	150,748	162,636
Inventories	97,007	90,297
Deferred Income Taxes	15,527	15,526
Prepaid Expenses and Other Current Assets	11,190	11,032
Total Current Assets	312,856	309,615
Investments in Joint Ventures		
Equity Method	15,172	16,042
Cost Method	5,922	5,922
Property, Plant and Equipment		
Land	39,035	38,875
Buildings	87,530	87,159
Machinery and Equipment	289,388	286,769
Construction in Progress	9,955	8,812
Total Property, Plant and Equipment at Cost	425,908	421,615
Accumulated Depreciation	(272,137)	(267,964)
Total Property, Plant and Equipment, Net	153,771	153,651
Deferred Income Taxes	6,043	6,029
Intangible Assets, Net of Accumulated Amortization of \$10,609 in 2005 and \$10,550 in 2004	13,793	13,795
Other Assets	43,024	38,883
Total Assets	\$ 550,581	\$ 543,937
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 18,333	\$ 18,333
Trade Payables	47,770	49,156
Accrued Liabilities	54,527	53,221
Income Taxes Payable	7,025	8,092
Total Current Liabilities	127,655	128,802
Long-Term Debt, Less Current Portion	81,106	75,349
Other Long-Term Liabilities	63,609	60,619
Total Liabilities	272,370	264,770
Stockholders' Equity		
Common Stock, Par Value \$2.50 per Share, Authorized 24,000,000 Shares, Outstanding 8,470,371 Shares in 2005 and 8,431,471 in 2004, Net of Treasury Shares	27,862	27,745
Additional Paid-In Capital	23,048	21,903
Unearned Restricted Stock	(3,464)	(2,300)
Retained Earnings	299,808	301,013
Accumulated Other Comprehensive Loss	(20,019)	(20,420)
Treasury Stock (2,674,270 Shares in 2005 and 2,666,670 in 2004)	(49,024)	(48,774)
Total Stockholders' Equity	278,211	279,167
Total Liabilities and Stockholders' Equity	\$ 550,581	\$ 543,937

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	February 27, 2005	February 29, 2004
Cash Flows from Operating Activities		
Net Income/(Loss)	\$ 481	\$ (2,753)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided by Operating Activities:		
Depreciation	4,803	4,561
Amortization	51	63
Provision for Deferred Income Taxes	103	17
Net Earnings and Distributions from Joint Ventures	847	71
Gain from Sale of Assets	(56)	(5)
Stock Compensation Expense	30	813
Changes in Operating Assets and Liabilities:		
Receivables	11,959	17,062
Inventories	(6,383)	286
Prepaid Expenses and Other Current Assets	(160)	(1,711)
Other Assets	(4,118)	(365)
Trade Payables	(1,522)	(3,262)
Accrued Liabilities and Income Taxes Payable	191	(10,129)
Other Long-Term Liabilities	2,845	2,029
	-----	-----
Net Cash Provided by Operating Activities	9,071	6,677
	-----	-----
Cash Flows from Investing Activities		
Proceeds from Sale of Assets	278	119
Additions to Investments, Property, Plant and Equipment	(4,958)	(3,034)
	-----	-----
Net Cash Used in Investing Activities	(4,680)	(2,915)
	-----	-----
Cash Flows from Financing Activities		
Issuance of Debt	5,891	2,216
Repayment of Debt	(165)	--
Dividends on Common Stock	(1,685)	(1,643)
Issuance of Common Stock	67	--
Change in Treasury Stock	(250)	(251)
	-----	-----
Net Cash Provided by Financing Activities	3,858	322
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11	397
	-----	-----
Net Change in Cash and Cash Equivalents	8,260	4,481
Cash and Cash Equivalents at Beginning of Period	30,124	20,390
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 38,384	\$ 24,871
	=====	=====

See accompanying notes to consolidated financial statements.

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**Ameron International Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Dollars in thousands except per share data)**  
**(Unaudited)**

**Note 1. Basis Of Presentation**

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation and all wholly-owned subsidiaries (the "Company" or "Ameron" or the "Registrant") at February 27, 2005, and its consolidated results of operations and cash flows for the three months ended February 27, 2005 and February 29, 2004. 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 ends on the Sunday closest to the end of the relevant calendar month. Ameron'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 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, 2004 ("2004 Annual Report").

Certain prior period balances have been reclassified to conform with the current period presentation.

**Note 2. New Accounting Pronouncements**

In January 2004, the Financial Accounting Standards Board ("FASB") issued a FASB Staff Position ("FSP") regarding Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," discusses the effect of the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") enacted on December 8, 2003. FSP 106-1 considers the effect of the two new features introduced in the Act in determining accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit costs, which may serve to reduce a company's postretirement benefit costs. Companies may elect to defer accounting for this benefit or may attempt to reflect the best estimate of the impact of the Act on net periodic costs currently. The Company has chosen to defer accounting for the benefit until the FASB issues final accounting guidance due to various uncertainties related to this legislation and the appropriate accounting. The Company's measures of APBO and net periodic postretirement benefit costs as of and for the period ended February 27, 2005 do not reflect the effect of the Act.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payments." SFAS No. 123 (R) would require the Company to measure all employee stock-based compensation awards using a fair-value method and record such expense in its consolidated financial statements. The adoption of SFA No. 123 (R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS No. 123 (R) is effective beginning in the quarter ending November 30, 2005. The effect of the adoption of SFAS No. 123 (R) is expected to be comparable to the effect disclosed on a pro forma

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basis as a result of applying the current fair-value recognition provisions of SFAS No. 123 as shown in Note 13 herein.

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In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions." The FASB issued this statement as a result of guidance provided in American Institute of Certified Public Accountants (AICPA) Statement of Position 04-2, "Accounting for Real Estate Time-Sharing Transactions," which applies to all real estate time-sharing transactions. SFAS No. 152 is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 152 is not expected to have a material impact on the Company's consolidated financial statements.

### Note 3. Inventories

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

	February 27, 2005	November 30, 2004
	-----	-----
Finished Products	\$ 55,889	\$ 52,489
Materials and Supplies	22,785	23,809
Products in Process	18,333	13,999
	-----	-----
	\$ 97,007	\$ 90,297
	=====	=====

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

	Three Months Ended	
	February 27, 2005	February 29, 2004
	-----	-----
Interest Paid	\$ 244	\$ 2,058
Income Taxes (Refunded)/Paid	\$ 858	\$ 3,329

### Note 5. Joint Ventures

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

	Three Months Ended	
	February 27, 2005	February 29, 2004
	-----	-----
Net Sales	\$ 47,185	\$ 45,790
Gross Profit	\$ 4,577	\$ 3,233
Net Income	\$ 1,598	\$ 990

Investments in Ameron Saudi Arabia, Ltd. ("ASAL"), Bondstrand, Ltd. ("BL") and Oasis-Ameron, Ltd. ("OAL") are accounted for under the cost method due to management's current assessment of the Company's influence over these



joint ventures.

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

	Three Months Ended	
	February 27, 2005	February 29, 2004
Earnings from Joint Venture		
TAMCO	\$ 655	\$ 534
Dividends Received from Joint Ventures		
TAMCO	\$ 1,502	\$ 605
ASAL	--	--
BL	--	--
OAL	--	--

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

#### Note 6. 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, including restricted shares, plus the effect of outstanding stock options, using the treasury stock method. All outstanding common stock equivalents, consisting of options to purchase 690,351 common shares, were dilutive for the three months ended February 27, 2005. For the three months ended February 29, 2004, due to the net loss, no outstanding common stock equivalents, options to purchase 233,260 common shares, were 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	
	February 27, 2005	February 29, 2004
Basic Average Common Shares Outstanding	8,342,338	8,163,420
Dilutive Effect of		

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Common Stock Equivalents	177,521	--
	-----	-----
Diluted Average Common Shares Outstanding	8,519,859	8,163,420
	=====	=====

**Note 7. Comprehensive Income**

Comprehensive income was computed as follows:

Three Months Ended		
	February 27, 2005	February 29, 2004
	-----	-----
Net Income/(Loss)	\$ 481	\$ (2,753)
Foreign Currency Translation Adjustment	424	5,260
Comprehensive (Loss)/Income from Joint Venture	(23)	378
	-----	-----
Comprehensive Income	\$ 882	\$ 2,885
	=====	=====

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**Note 8. Debt**

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

	February 27, 2005	November 30, 2004
	-----	-----
Fixed-rate notes, bearing interest at 7.92%, payable in annual principal installments of \$8,333	\$ 16,667	\$ 16,667
Fixed-rate notes, bearing interest at 5.36%, payable in annual principal installments of \$10,000 beginning in 2005	50,000	50,000
Variable-rate industrial development bonds, payable in 2016 (2.14% at February 27, 2005)	7,200	7,200
Variable-rate industrial development bonds, payable in 2021 (2.14% at February 27, 2005)	8,500	8,500
Variable-rate bank revolving credit facilities-domestic, payable in 2008 (3.72% at February 27, 2005)	15,000	10,400
Variable-rate bank revolving credit facilities-foreign, payable in 2006 (2.57% at February 27, 2005)	2,072	915
	-----	-----
Total long-term debt	99,439	93,682
Less current portion	(18,333)	(18,333)
	-----	-----
Long-term debt, less current portion	\$ 81,106	\$ 75,349
	=====	=====

The Company borrows under a \$100,000 revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until June 2008, when all borrowings under the Revolver must be repaid. The lending

agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Revolver, the 5.36% term notes and the 7.92% term notes are collateralized by substantially all of the Company's assets. The industrial revenue bonds are supported by standby letters of credit that are issued under the Revolver. 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 9. Segment Information**

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

Three Months Ended	
February 27, 2005	February 29, 2004
-----	-----

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Sales		
Performance Coatings & Finishes	\$ 41,945	\$ 44,354
Fiberglass-Composite Pipe	26,432	27,834
Water Transmission	34,978	28,712
Infrastructure Products	35,535	28,887
Eliminations	(78)	(119)
	-----	-----
Total Sales	\$ 138,812	\$ 129,668
	=====	=====
Income/(Loss) Before Interest, Income Taxes and Equity in Earnings of Joint Venture		
Performance Coatings & Finishes	\$ (2,518)	\$ (972)
Fiberglass-Composite Pipe	3,996	4,244
Water Transmission	2,690	(63)
Infrastructure Products	3,419	1,731
Corporate & Unallocated	(6,383)	(7,751)
	-----	-----
Total Income/(Loss) Before Interest, Income Taxes, and Equity in Earnings of Joint Venture	\$ 1,204	\$ (2,811)
	=====	=====
	February 27, 2005	November 30, 2004
	-----	-----
Assets		
Performance Coatings & Finishes	\$ 173,128	\$ 173,807
Fiberglass-Composite Pipe	161,211	155,390
Water Transmission	122,343	120,921
Infrastructure Products	81,427	74,623
Corporate & Unallocated	207,825	198,797
Eliminations	(195,353)	(179,601)
	-----	-----
Total Assets	\$ 550,581	\$ 543,937
	=====	=====

**Note 10. Commitments & Contingencies**

The Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and, at this time, the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of February 27, 2005, the Company was a defendant in asbestos-related cases involving 14,873 claimants, compared to 18,298 claimants as of November 30, 2004. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 27, 2005, there were new claims involving 1 claimant, dismissals and/or settlements involving 3,426 claimants and no judgments. No net costs and expenses were incurred by the Company for the quarter ended February 27, 2005 in connection with asbestos-related claims.

The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and, at this time, the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The Company continues to vigorously defend all such lawsuits. As of February 27, 2005, the Company was a defendant in silica-related cases involving 8,684 claimants, compared to 8,226 claimants as of November 30, 2004. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 27, 2005, there were new claims involving 481 claimants, dismissals and/or settlements involving 23 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 27, 2005 in connection with silica-related claims were less than \$100.

In April 2003, the Company was served with a complaint in an action brought by J. Ray McDermott, Inc., J. Ray McDermott, S.A. and SparTEC, Inc. (collectively "McDermott") in the District Court of Harris County, Texas against the Company and two co-defendants, in connection with certain coatings supplied by the defendants in 2002 for an offshore production facility known as a SPAR being constructed by McDermott for Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc. (collectively "Dominion"). McDermott alleges that the Company's co-defendants improperly supplied coatings which contained lead and/or lead chromate, and that as a result the Company and its co-defendants are liable to McDermott for all costs associated with removal and replacement of those coatings. McDermott's petition as filed alleged a claim for damages in an unspecified amount; however, McDermott's economic expert subsequently estimated McDermott's damages at approximately \$21 million, a figure which the Company contests. Trial of this matter is expected in August 2005. The Company believes that it has meritorious defenses to this action. Based upon the information available to it at this time, the Company is not in a position to evaluate the ultimate outcome of this matter.

Separately, in May 2003, Dominion brought an action against the Company in Civil District Court for the Parish of Orleans, Louisiana as owners of the SPAR seeking additional damages allegedly sustained by Dominion resulting from delays in McDermott's delivery of the SPAR caused by the removal and replacement of coatings containing lead and/or lead chromate. 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 recently estimated Dominion's damages at approximately \$128 million, a figure which the Company contests. This matter is in discovery and no trial date has yet been established. The Company believes that it has meritorious defenses to this action. Based upon the information available to it at this time, the Company is not in a position to evaluate the ultimate outcome of this matter.

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 or its results of operations if disposed of unfavorably.

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 or its results of operations.

#### **Note 11. Product Warranties and Guarantees**

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The Company's product warranty accrual reflects management's estimate of probable liability associated with product warranties. Management establishes product warranty accruals based on historical experience and other currently available information.

Changes in the product warranty accrual were as follows:

	Three Months Ended	
	February 27, 2005	February 29, 2004
Balance, Beginning of Period	\$ 4,297	\$ 3,770
Payments	(699)	(443)
Warranty Accruals During the Period	945	598
Balance, End of Period	\$ 4,543	\$ 3,925

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

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

Segment	November 30, 2004	Foreign Currency Translation Adjustments	February 27, 2005
Performance Coatings & Finishes	\$ 11,909	\$ 50	\$ 11,959
Fiberglass-Composite Pipe	1,440	-	1,440
Infrastructure Products	201	-	201
Total	\$ 13,550	\$ 50	\$ 13,600

The Company's intangible assets, other than goodwill, and related accumulated amortization consisted of the following:

	February 27, 2005		November 30, 2004	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
Trademarks	\$ 2,227	\$ (2,131)	\$ 2,227	\$ (2,127)
Non-Compete Agreements	2,105	(2,008)	2,105	(1,963)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
Total	\$ 6,474	\$ (6,281)	\$ 6,474	\$ (6,232)

All of the Company's intangible assets, other than goodwill, are subject to amortization. Amortization expenses for the three months ended February 27, 2005 and February 29, 2004 were \$51 and \$63, respectively. At February 27, 2005, estimated future amortization expenses were as follows: \$133 for the remaining nine months of 2005, \$47 for 2006 and \$13 for 2007.

**Note 13. Incentive Stock Compensation Plans**

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its various stock option plans. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123:

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	Three Months Ended	
	February 27,	February 29,
	2005	2004
	-----	-----
Reported Net Income/(Loss)	\$ 481	\$ (2,753)
Add: Stock-based Employee Compensation Expense Included in Reported Net Income, Net of Tax	20	553
Deduct: Stock-based Employee Compensation Expense Determined under SFAS No. 123,  Net of Tax	(249)	(177)
Pro Forma Net Income/(Loss)	\$ 251	\$ (2,377)
Basic Net Income/(Loss) Per Share:		
As Reported	\$ 0.06	\$ (.34)
Pro Forma	\$ 0.03	\$ (.29)
Diluted Net Income/(Loss) Per Share:		
As Reported	\$ 0.06	\$ (.34)
Pro Forma	\$ 0.03	\$ (.29)

**Note 14. Employee Benefit Plans**

For the quarters ended February 27, 2005 and February 29, 2004, net pension and postretirement costs were comprised of the following:

	Pension Benefits				U.S. Postretirement Health Care	
	U.S. Plans		Non U.S. Plans			
	2005	2004	2005	2004	2005	2004
	----- Three Months Ended February 27 and 29, -----					
Service Cost	\$ 797	\$ 862	\$ 349	\$ 307	\$ 30	\$
Interest Cost	2,484	2,723	484	450	51	
Expected Return on Plan Assets	(2,815)	(2,629)	(362)	(339)	(8)	
Amortization of Unrecognized						
Prior Service Cost	25	217	172	160	(4)	
Net Transition Obligation	--	--	--	--	18	
Amortization of Accumulated Loss	1,144	1,538	--	--	15	
Net Periodic Cost	\$ 1,635	\$ 2,711	\$ 643	\$ 578	\$ 102	\$

The Company's policy is to make pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company contributed \$1,105 to the U.S. pension plans in the first quarter of 2005, and also expects to contribute \$870 in each remaining quarter of 2005.



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

**Ameron International Corporation and Subsidiaries  
February 27, 2005**

**INTRODUCTION**

Ameron International Corporation ("Ameron" or the "Company") 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; high-performance coatings and finishes for the protection of metals and structures; 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, Australasia and Asia. The Company has four operating segments. The Performance Coatings & Finishes Group manufactures and markets high-performance industrial and marine coatings. 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. The Infrastructure Products Group manufactures and sells ready-mix concrete, sand and aggregates, concrete pipe and culverts, and concrete and steel lighting and traffic poles. The markets served by the Performance Coatings & Finishes Group and the Fiberglass-Composite Pipe Group are worldwide in scope. The Water Transmission Group primarily serves the western U.S. 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 Kuwait and Egypt.

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2004 Annual Report. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's Discussion and Analysis of Liquidity and Capital Resources and Results of Operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

The Company's significant accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements in the Company's 2004 Annual Report. Management believes the following accounting policies affect the more significant estimates used in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss. The Company advances funds to certain foreign subsidiaries that are not expected to be repaid in the foreseeable future. Translation

adjustments arising from these advances are also included in accumulated other comprehensive loss. The timing of repayments of intercompany advances could materially impact the Company's consolidated financial statements. Additionally, earnings of foreign subsidiaries are often 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.

Revenue for the Performance Coatings & Finishes, Fiberglass-Composite Pipe and Infrastructure Products segments is recognized when risk of ownership and title pass, primarily at the time goods are shipped, provided that an agreement exists between the customer and the Company, the price is fixed or determinable and collection is reasonably assured. In limited circumstances within the Performance Coatings & Finishes Group, revenue recognition associated with shipment of coatings for marine dry dockings is delayed until product returns are processed. Revenue is recognized for the Water Transmission Group primarily under the percentage-of-completion method, typically based on completed units of production, since products manufactured under enforceable and binding construction contracts, typically are designed for specific applications, are not interchangeable between projects, and are not manufactured for stock. In some cases, if products are manufactured for stock or are not related to specific construction contracts, revenue is recognized under the same criteria used by the other three segments. Revenue under the percentage-of-completion method is subject to a greater level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted periodically to reflect current expectations.

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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 estimates of the Company's exposure can be reasonably estimated and 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 inventory levels or costs could materially impact the Company's financial statements. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. A significant reduction in demand or significant worsening of customer credit quality could materially impact the Company's consolidated financial statements. Property, plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally two to 40 years.

Investments in unconsolidated joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Investments in joint ventures over which the Company does not have the ability to exert significant influence over the investee's operating and financing activities are accounted for under the cost method of accounting. The Company's investment in TAMCO is accounted for under the equity method. Investments in Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the estimated future, undiscounted cash flows from the use of an asset are less than its carrying value, a write-down is recorded to reduce the related assets to estimated fair value. The Company also reviews intangible assets for impairment at least annually, based on the estimated future, discounted cash flows associated with such assets. Actual cash flows may differ significantly from estimated cash flows. Additionally, current estimates of future cash flows may differ from subsequent estimates of future cash flows. Changes in estimated or actual cash flows could materially impact the Company's consolidated financial statements.

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

The Company follows the guidance of Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for pension and other postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets that are controlled and invested by third-party fiduciaries. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. Such delayed recognition provides a gradual recognition of benefit obligations and investment performance over the working lives of the employees who benefit under the plans, based on various assumptions. Assumed discount rates are used to calculate the present values of benefit payments which are projected to be made in the future, including projections of increases in employee's annual compensation and health care costs. Management also projects the future return on invested assets based principally on prior performance. These projected returns reduce the net benefit costs the Company records in the current period. Management consults with its actuaries when determining these assumptions. Unforecasted program changes, including termination, freezing of benefits or acceleration of benefits, could result in an immediate recognition of unrecognized benefit obligations; and such recognition could materially impact the Company's consolidated financial statements.

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

During the first quarter of 2005, the Company generated cash from operating activities of \$9.1 million, compared to \$6.7 million in the same period in 2004. The higher operating cash flow in 2005 was primarily due to higher earnings and reduced receivables, partially offset by higher inventories. Receivables decreased in the first quarter of 2005 due to the timing of collections. Inventories increased due to the backlog of orders.

Net cash used in investing activities totaled \$4.7 million in the first quarter of 2005, compared to \$2.9 million in the same period in 2004. In 2005, net cash used in investing activities consisted of proceeds from the sale of assets of \$.3 million, offset by capital expenditures of \$5.0 million. Capital expenditures were primarily for normal replacement and upgrades of machinery and equipment and for a new fiberglass pipe plant in Malaysia. During the year ending November 30, 2005, the Company anticipates spending between \$25 and \$35 million on capital expenditures. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash provided by financing activities was \$3.9 million during the first quarter of 2005, compared to \$.3 million in the same period in 2004. The net cash provided by financing activities in 2005 consisted of a net increase in debt of \$5.7 million, and \$.1 million from the issuance of common stock related to the exercise of stock options, offset by common stock dividends totaling \$1.7 million, and \$.3 million for treasury shares used to pay withholding taxes on vested restricted shares.

The Company utilizes a \$100 million revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until June 2008, when all borrowings under the Revolver must be repaid.

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, investments and guarantees. The Company is required to maintain consolidated net worth of \$181.4 million plus 50% of net income and 75% of proceeds from any equity issued after January 24, 2003. The Company's consolidated net worth exceeded the covenant amount by \$75.1 million as of February 27, 2005. The Company is required to maintain a consolidated leverage ratio of consolidated funded indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") of no more than 2.5 times. As of February 27, 2005, the Company maintained a debt leverage ratio of 2.0 times EBITDA. Lending agreements require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. As of February 27, 2005, qualifying tangible assets equaled 1.8 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA, rental expense and cash taxes must be at least 1.5 times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. As of February 27, 2005, the Company maintained a ratio of 2.1 times.

Cash and cash equivalents at February 27, 2005 totaled \$38.4 million, an increase of \$8.3 million from November 30, 2004. At February 27, 2005, the Company had total debt outstanding of \$99.4 million and approximately \$103 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing and the average borrowing levels during 2005 were \$110.1 million and \$97.5 million, respectively.

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2005. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as loss of customers or significant raw material price increases. Management believes it is unlikely that business or economic conditions will worsen or that costs will increase sufficiently to impact short-term liquidity.

The Company's contractual obligations and commercial commitments at February 27, 2005 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Long-Term Debt (a)	\$ 99,439	\$ 18,333	\$28,334	\$37,072	\$15,700
Operating Leases	38,965	4,503	6,710	6,630	21,122
Purchase Obligation (b)	4,755	2,072	1,861	572	250
<b>Total Contractual Obligations (c)</b>	<b>\$143,159</b>	<b>\$ 24,908</b>	<b>\$ 36,905</b>	<b>\$44,274</b>	<b>\$37,072</b>

  

Commercial Commitments	Commitments Expiring Per Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Standby Letters of Credit (d)	\$ 2,307	\$ 2,307	\$ --	\$ --	\$ --
<b>Total Commercial Commitments (c)</b>	<b>\$ 2,307</b>	<b>\$ 2,307</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

(a) Included in long-term debt is \$2,072 outstanding under a revolving credit facility, supported by the Revolver, due in 2008.

(b) Obligation to purchase sand used in the Company's ready-mix operations in Hawaii.

(c) The Company has no capitalized lease obligations, guarantees, or standby repurchase obligations.

(d) Not included are standby letters of credit totaling \$16,065 supporting industrial development bonds with a principal of \$15,700. The principal amount of the industrial development bonds is included in long-term debt.

## RESULTS OF OPERATIONS

### General

The Company had net income of \$.5 million, or \$.06 per diluted share, on sales of \$138.8 million for the quarter ended February 27, 2005, compared to a net loss of \$2.8 million, or a loss of \$.34 per diluted share, on sales of \$129.7 million for the same period in 2004. Sales and profits of the Water Transmission and Infrastructure Products Groups increased, while sales and profits of the Performance Coatings & Finishes and Fiberglass-Composite Pipe Groups declined. The Water Transmission and Infrastructure Products Group were disrupted by strikes in the first quarter of 2004. The Performance Coatings & Finishes Group continued to suffer from weak demand, and the

Fiberglass-Composite Pipe Group was impacted by the timing of projects and mixed market conditions. Net income was higher in 2005 due to higher sales.

### **Sales**

Sales increased by \$9.1 million during the first quarter of 2005, compared to the same period in 2004. Sales were lower in 2004 primarily due to the strikes in California and Hawaii that adversely impacted the Water Transmission and Infrastructure Products Groups.

Performance Coatings & Finishes' sales decreased \$2.4 million in the first quarter of 2005, compared to the first quarter of 2004. Performance Coatings & Finishes continued to suffer from weak demand in U.S. and European industrial, chemical and marine markets. Additionally, the strength of the euro and the British pound reduced the ability of Ameron's European operations to competitively sell coatings into dollar-based markets in the Middle East, North Africa and Eastern Europe. Sales were also down in the U.S. due to the loss of a contract to supply coatings to the U.S. Navy. The outlook for the business remains uncertain as chemical and industrial markets in the U.S. and Europe have not shown signs of recovery.

Fiberglass-Composite Pipe's sales decreased \$1.4 million in the first quarter of 2005, compared to the first quarter of 2004. Sales of piping for industrial and fuel-handling applications in the U.S. and Europe were lower due to weak demand and project timing. Sales of onshore oilfield piping manufactured in the U.S. and marine piping manufactured in Asia were higher due to the strength of oil prices and regulations which require new double-hull tankers for transporting oil. The backlog is robust, and the forecast for the Fiberglass-Composite Pipe Group remains positive, driven by high oil prices and the high cost of competitive steel tubing.

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Although wet weather slowed operations, the Water Transmission Group returned to a traditional level of sales in the first quarter of 2005. The Water Transmission Group's sales increased \$6.3 million during the first quarter of 2005, compared to the same period in 2004. Sales were lower in 2004 due to strikes at two plants in Southern California. Revenue is recognized in the Water Transmission Group primarily under the percentage of completion method and is subject to a certain level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted when actual results are expected to significantly differ from those estimates. The Water Transmission Group entered 2005 with a relatively large backlog, and sales are expected to be higher in 2005 than in 2004 due to the backlog of orders.

The Infrastructure Products Group had \$6.6 million higher sales in the first quarter of 2005, compared to the same period in 2004. The improvement came from Hawaiian operations, which were disrupted by a strike in the first quarter of 2004. Sales of poles declined in the first quarter as the wet weather in Southern California affected construction projects and pole installations. The forecast for the Infrastructure Products Group remains positive due to spending on residential, commercial and government construction spurred by low interest rates.

### **Gross Profit**

Gross profit in the first quarter of 2005 was \$33.3 million, or 24.0% of sales, compared to \$29.9 million, or 23.1% of sales, in the same period in 2004. Gross profit was \$3.3 million lower in 2004 due to the impact of the strikes on sales and plant utilization.

Gross profit of the Performance Coatings & Finishes Group was \$1.3 million lower in the first quarter of 2005, compared to the same period in 2004, due to lower sales and reduced profit margins. Profit margins were impacted

by higher raw material costs and underutilization of plant capacity. Additionally, margins on sales from operations in Europe into dollar-based markets in the Middle East and the former Soviet Union were impacted by the weaker U.S. dollar.

The Fiberglass-Composite Pipe Group's gross profit declined slightly in the first quarter of 2005, compared to the same period in 2004. Margins improved due to the mix of products and a Group-wide program to increase pricing to offset higher raw material costs.

Gross profit of the Water Transmission Group increased \$2.7 million in the first quarter of 2005, compared to the same period in 2004. The increase was due primarily to higher sales and improved plant utilization. Profits were impacted in 2004 by the strikes and higher workers' compensation costs.

The Infrastructure Products Group's gross profit increased \$1.7 million in the first quarter of 2005, compared to the same period in 2004. The increase was due primarily to higher sales and improved plant utilization in Hawaii, which was impacted by the labor dispute and wet weather in 2004.

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

Selling, general and administrative ("SG&A") expenses totaled \$33.2 million, or 23.9% of sales, in the first quarter of 2005, compared to \$33.3 million, or 25.7%, in the same period in 2004. Lower pension expense of \$.6 million, which resulted from the termination of two executive benefit plans in 2004, lower stock compensation expense of \$.8 million and recovery from insurance companies of \$.6 million were offset by higher severance costs of \$.8 million and higher self-insurance expenses of \$.6 million. Additionally, the appreciation of foreign currencies increased SG&A of foreign operations by approximately \$.6 million.

### **Equity in Earnings of Joint Venture and Other Income**

Equity in earnings of joint venture increased to \$.6 million in the first quarter of 2005 compared to \$.5 million in the same period in 2004. Equity income increased due to TAMCO, Ameron's 50%-owned mini-mill in California. Shipments of construction rebar slowed in the fourth quarter of 2004 and the first quarter of 2005 as customers adjusted inventory levels and imports increased. In spite of wet weather which reduced construction in the first quarter, shipments began to increase in January as customers' inventory levels returned to traditional levels. TAMCO is forecasting a strong performance for the remainder of 2005, based on expected demand and current steel prices.

Other income included royalties and fees from licensees, gains on foreign currency, and other miscellaneous income. Other income increased to \$1.2 million in the first quarter of 2005 from \$.6 million in the same period in 2004 primarily due to gains on foreign exchange.

### **Interest**

Interest expense totaled \$1.4 million in 2005, compared to \$1.8 million in 2004. The decrease reflected a higher usage of the lower-rate Revolver following the amortization of a portion of the Company's fixed-rate debt.

### **Provision for Income Taxes**

The provision for income taxes in 2005 was a benefit of \$.1 million, compared to a benefit of \$1.3 million in 2004. The effective tax rate increased to 35% in 2005 from 30% in 2004. The effective tax rate was higher due to higher

anticipated earnings from domestic operations. Income from certain foreign operations and joint ventures is taxed at rates that are lower than U.S. statutory tax rates.

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

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's 2004 Annual Report.

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

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of February 27, 2005 pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to February 27, 2005.

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

## **Part II. OTHER INFORMATION**

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

The Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and, at this time, the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of February 27, 2005, the Company was a defendant in asbestos-related cases involving 14,873 claimants, compared to 18,298 claimants as of November 30, 2004. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 27, 2005, there were new claims involving 1 claimant, dismissals and/or settlements involving 3,426 claimants and no judgments. No net costs and expenses were incurred by the Company for the quarter ended February 27, 2005 in connection with asbestos-related claims.

The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The



Company continues to vigorously defend all such lawsuits. As of February 27, 2005, the Company was a defendant in silica-related cases involving 8,684 claimants, compared to 8,226 claimants as of November 30, 2004. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended February 27, 2005 there were new claims involving 481 claimants, dismissals and/or settlements involving 23 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended February 27, 2005 in connection with silica-related claims were less than \$.1 million.

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In April 2003, the Company was served with a complaint in an action brought by J. Ray McDermott, Inc., J. Ray McDermott, S.A. and SparTEC, Inc. (collectively "McDermott") in the District Court of Harris County, Texas against the Company and two co-defendants, in connection with certain coatings supplied by the defendants in 2002 for an offshore production facility known as a SPAR being constructed by McDermott for Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc. (collectively "Dominion"). McDermott alleges that the Company's co-defendants improperly supplied coatings which contained lead and/or lead chromate, and that as a result the Company and its co-defendants are liable to McDermott for all costs associated with removal and replacement of those coatings. McDermott's petition as filed alleged a claim for damages in an unspecified amount; however, McDermott's economic expert subsequently estimated McDermott's damages at approximately \$21 million, a figure which the Company contests. Trial of this matter is expected in August 2005. The Company believes that it has meritorious defenses to this action. Based upon the information available to it at this time, the Company is not in a position to evaluate the ultimate outcome of this matter.

Separately, in May 2003, Dominion brought an action against the Company in Civil District Court for the Parish of Orleans, Louisiana as owners of the SPAR seeking additional damages allegedly sustained by Dominion resulting from delays in McDermott's delivery of the SPAR caused by the removal and replacement of coatings containing lead and/or lead chromate. 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 recently estimated Dominion's damages at approximately \$128 million, a figure which the Company contests. This matter is in discovery and no trial date has yet been established. The Company believes that it has meritorious defenses to this action. Based upon the information available to it at this time, the Company is not in a position to evaluate the ultimate outcome of this matter.

## **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 \$9.5 million of consolidated retained earnings were not restricted at February 27, 2005.

### **ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit	(c) Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs **
12/1/04 thru 12/31/04	--	N/A		
1/1/05 thru 1/31/05	7,600*			
2/1/05 thru 2/27/05	--			

\*Represents shares repurchased by the Company from certain recipients of restricted stock to pay taxes applicable to their restricted stock.

\*\*Shares may be repurchased by the Company to pay taxes applicable to the vesting of employee's restricted stock. However, because neither the amount of such taxes nor the share price on the date of such repurchases are known at this time, it is not possible to estimate the numbers of such shares that would be so repurchased.

## Item 6. Exhibits

None

(10) Material Contracts

(31.1) Section 302 Certification of Chief Executive Officer

(31.2) Section 302 Certification of Chief Financial Officer

(32) Section 906 Certification of Chief Executive Officer and Chief Financial Officer\*

\* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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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 8, 2005

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Gary Wagner  
Senior Vice President, Chief Financial Officer

#### MATERIAL CONTRACTS

The following annual base salaries for the "Named Executive Officers" were approved by the Board of Directors on January 26, 2005.

<u>Named Executive Officer</u>	<u>Base Salary</u>
James S. Marlen, Chairman, President and CEO	\$790,000
Javier Solis, Senior Vice President Administration, Secretary & General Counsel	302,000
Gary Wagner, Senior Vice President, Chief Financial Officer	302,000
Thomas P. Giese, Vice President; Group President, Water Transmission Group	250,000
James R. McLaughlin, Vice President, Treasurer & Controller	193,000

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SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James S. Marlen, President and Chief Executive Officer of Ameron International Corporation (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

April 8, 2005

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James S. Marlen  
President & Chief Executive Officer

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Exhibit 31.2

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary Wagner, Senior Vice President and Chief Financial Officer of Ameron International Corporation (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

April 8, 2005

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Gary Wagner  
Senior Vice President, Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. ss.1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002\*

In connection with the Quarterly Report on Form 10-Q of Ameron International Corporation (the "Company") for the fiscal quarter ended February 27, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Marlen, President and Chief Executive Officer of the Company and I, Gary Wagner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:  
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James S. Marlen  
President & Chief Executive Officer



April 8, 2005

By:

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Gary Wagner  
Senior Vice President & Chief Financial Officer  
April 8, 2005

\* A signed original of this written statement required by Section 906 has been provided to Ameron International Corporation and will be retained by Ameron International Corporation and furnished to the Securities and Exchange Commission or its staff upon request.