

AMERON INTERNATIONAL CORP  
Form 10-Q  
June 30, 2004

**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 May 31, 2004

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

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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 8,429,221 on May 31, 2004. 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 May 31,		Six Months Ended May 31,	
	2004	2003	2004	2003
Sales	\$ 150,516	\$ 147,844	\$ 280,184	\$ 278,465
Cost of Sales	(113,930)	(107,527)	(213,659)	(205,483)
Gross Profit	36,586	40,317	66,525	72,982
Selling, General and Administrative Expenses	(31,630)	(31,989)	(64,946)	(60,558)
Other Income, Net	1,488	5,077	2,054	5,965
Income before Interest and Income Taxes	6,444	13,405	3,633	18,389
Interest Expense, Net	(1,498)	(1,834)	(3,269)	(3,303)
Income before Income Taxes	4,946	11,571	364	15,086
Provision for Income Taxes	(1,464)	(3,800)	(120)	(4,938)
Income before in Equity Earnings of Joint Venture Equity in Earnings of Joint Venture, Net of Taxes	3,482 3,391	7,771 54	244 3,876	10,148 (148)
Net Income	\$ 6,873	\$ 7,825	\$ 4,120	\$ 10,000
Net Income per Share (Basic)	\$ .83	\$ 1.00	\$ .50	\$ 1.28
Net Income per Share (Diluted)	\$ .82	\$ .97	\$ .49	\$ 1.24
Weighted-Average Shares (Basic)	8,250,462	7,849,824	8,206,941	7,838,682
Weighted-Average Shares (Diluted)	8,410,028	8,089,951	8,404,628	8,058,074
Cash Dividends per Share	\$ .20	\$ .20	\$ .40	\$ .36

See accompanying notes to consolidated financial statements.

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	May 31, 2004 ( Unaudited )	November 30, 2003
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 32,798	\$ 20,390
Receivables, Less Allowances of \$7,210 in 2004 and \$8,168 in 2003	149,535	155,629
Inventories	89,830	91,371
Deferred Income Taxes	19,241	19,241
Prepaid Expenses and Other Current Assets	9,774	8,882
	-----	-----
Total Current Assets	301,178	295,513
Investments in Joint Ventures		
Equity Method	14,063	13,064
Cost Method	5,479	5,479
Property, Plant and Equipment		
Land	37,951	37,787
Buildings	85,020	84,426
Machinery and Equipment	288,255	283,123
Construction in Progress	8,520	6,169
	-----	-----
Total Property, Plant and Equipment at Cost	419,746	411,505
Accumulated Depreciation	(270,084)	(260,919)
	-----	-----
Total Property, Plant and Equipment, Net	149,662	150,586
Deferred Income Taxes	6,731	6,744
Intangible Assets, Net of Accumulated Amortization of \$9,951 in 2004 and \$9,738 in 2003	13,583	13,526
Other Assets	49,442	48,580
	-----	-----
Total Assets	\$ 540,138	\$ 533,492
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 8,333	\$ 8,333
Trade Payables	51,543	47,512
Accrued Liabilities	67,847	53,091
Income Taxes Payable	4,097	9,568
	-----	-----
Total Current Liabilities	131,820	118,504
Long-Term Debt, Less Current Portion	85,819	86,044
Other Long-Term Liabilities	59,568	72,832
	-----	-----
Total Liabilities	277,207	277,380
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 8,429,221 Shares in 2004 and 8,214,563 in 2003, Net of Treasury Shares	27,740	27,186
Additional Paid-In Capital	20,941	16,443
Unearned Restricted Stock	(2,963)	(1,481)
Retained Earnings	295,046	294,255
Accumulated Other Comprehensive Loss	(29,059)	(31,768)
Treasury Stock (2,666,670 Shares in 2004 and 2,659,810 in 2003)	(48,774)	(48,523)
	-----	-----
Total Stockholders' Equity	262,931	256,112
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 540,138	\$ 533,492
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Six Months Ended May 31,	
	2004	2003
Cash Flows from Operating Activities		
Net Income	\$ 4,120	\$ 10,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	9,211	8,970
Amortization	115	140
Provision for Deferred Income Taxes	34	397
Net Earnings and Distributions from Joint Ventures	(204)	436
Gain from Sale of Assets	(84)	(23)
Stock Compensation Expense	370	676
Changes in Operating Assets and Liabilities:		
Receivables	6,949	(828)
Inventories	2,364	(2,274)
Prepaid Expenses and Other Current Assets	(869)	(3,086)
Other Assets	(897)	(3,051)
Trade Payables	3,691	(563)
Accrued Liabilities and Income Taxes Payable	9,098	5,572
Other Long-Term Liabilities	(13,333)	6,402
Net Cash Provided by Operating Activities	20,565	22,768
Cash Flows from Investing Activities		
Proceeds from Sale of Assets	218	382
Additions to Property, Plant and Equipment	(7,793)	(8,755)
Net Cash Used in Investing Activities	(7,575)	(8,373)
Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	-	(1,517)
Issuance of Debt	81	66,439
Repayment of Debt	(366)	(70,123)
Debt Issuance Costs	-	(1,520)
Dividends on Common Stock	(3,329)	(2,848)
Issuance of Common Stock	3,199	409
Change in Treasury Stock	(251)	136
Net Cash Used in Financing Activities	(666)	(9,024)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	84	640
Net Change in Cash and Cash Equivalents	12,408	6,011
Cash and Cash Equivalents at Beginning of Period	20,390	10,360
Cash and Cash Equivalents at End of Period	\$ 32,798	\$ 16,371

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 May 31, 2004, and consolidated results of operations and cash flows for the three and six months ended May 31, 2004 and 2003. 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, 2003 ("2003 Annual Report").

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

**Note 2. New Accounting Pronouncements**

In December 2003, the Financial Accounting Standards Board ("FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revision to SFAS No. 132 requires additional disclosures relating to the description of the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans recognized during interim periods. These disclosure requirements are effective for the Company's first quarter and all future quarterly and annual reports. Disclosures required under SFAS No. 132 are included in Note 14, herein.

In January 2004, the FASB issued a FASB Staff Position ("FSP") regarding 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 cost, which may serve to reduce a company's post-retirement 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 quarter ended May 31, 2004 do not reflect the effect of the Act.

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In December 2003, the FASB issued FASB Interpretation ("FIN") No. 46-R, "Consolidation of Variable Interest Entities," to replace FIN No. 46. FIN No. 46-R addresses the consolidation of business enterprises ("variable interest entities") to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. FIN No. 46-R focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests or sufficient equity, a company's exposure ("variable interest") to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is required to consolidate the assets, liabilities and the results of operations of the variable interest entity in its financial statements. The adoption of FIN No. 46-R did not 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:

	May 31, 2004	November 30, 2003
	-----	-----
Finished Products	\$ 51,041	\$ 52,821
Materials and Supplies	24,549	22,037
Products in Process	14,240	16,513
	-----	-----
	\$ 89,830	\$ 91,371
	=====	=====

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

	Six Months Ended May 31,	
	-----	-----
	2004	2003
	-----	-----
Interest Paid	\$ 3,400	\$ 3,329
Income Taxes Paid	\$ 4,958	\$ 758

### Note 5. Joint Ventures

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

	Three Months Ended		Six Months Ended	
			May 31,	
			-----	-----
	2004	2003	-----	-----
	-----	-----	-----	-----
Net Sales	\$ 62,197	\$ 41,491	\$ 107,987	\$ 74,082
Gross Profit	\$ 14,426	\$ 1,803	\$ 17,661	\$ 2,612
Net Income/(Loss)	\$ 7,478	\$ 118	\$ 8,467	\$ (322)

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 May 31,		Six Months Ended May 31,	
	2004	2003	2004	2003
Equity in Earnings/(Losses) of Joint Venture				
TAMCO	\$ 3,739	\$ 59	\$ 4,273	\$ (161)
Dividends Received from Joint Ventures				
TAMCO	\$ 3,465	\$ -	\$ 4,070	\$ 275
ASAL	-	2,633	-	2,633
BL	-	2,238	-	2,238
OAL	97	97	97	97
Amercoat Mexicana	N/A	-	N/A	-

Earnings from ASAL, BL, OAL, and Amercoat Mexicana are included in other income. The Company sold its interest in Amercoat Mexicana in August 2003.

### 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 plus the effect of outstanding restricted stock and stock options, using the treasury stock method. For the three months ended May 31, 2004, options to purchase 45,000 common shares were anti-dilutive, while options to purchase 21,000 common shares were anti-dilutive for the six months ended May 31, 2004. For the three months ended May 31, 2003, options to purchase 21,000 common shares were anti-dilutive, while options to purchase 36,000 common shares were anti-dilutive for the six months ended May 31, 2003. Following is a reconciliation of the weighted-average number of shares used in the computation of basic and diluted net income per share:

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	Three Months Ended May 31,		Six Months Ended May 31,	
	2004	2003	2004	2003
Basic Average Common Shares Outstanding	8,250,462	7,849,824	8,206,941	7,838,682
Dilutive Effect of Common Stock Equivalents	159,566	240,127	197,687	219,392
Diluted Average Common Shares Outstanding	8,410,028	8,089,951	8,404,628	8,058,074

The Company declared a two-for-one stock split in the form of a stock dividend, payable May 27, 2003. The share and per share information herein is reflected on a post-split basis.

### Note 7. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2004	2003	2004	2003

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Net Income	\$ 6,873	\$ 7,825	\$ 4,120	\$ 10,000
Foreign Currency Translation Adjustment	(3,347)	4,867	1,913	9,539
Comprehensive Income from Joint Venture	418	251	796	1,177
Comprehensive Income	\$ 3,944	\$ 12,943	\$ 6,829	\$ 20,716

**Note 8. Debt**

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

	May 31, 2004	November 30, 2003
Fixed-rate notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 25,000	\$ 25,000
Fixed-rate notes payable, bearing interest at 5.36%, in annual principal installments of \$10,000 beginning in 2005	50,000	50,000
Variable-rate industrial development bonds, payable in 2016 (1.22% at May 31, 2004)	7,200	7,200
Variable-rate industrial development bonds, payable in 2021 (1.22% at May 31, 2004)	8,500	8,500
Variable-rate bank revolving credit facilities, payable in 2008 (4.73% at May 31, 2004)	3,452	3,677
Total long-term debt	94,152	94,377
Less current portion	(8,333)	(8,333)
Long-term debt, less current portion	\$ 85,819	\$ 86,044

The Company maintains a \$100,000 revolving credit facility with six banks (the "Revolver"). The Revolver was extended on consistent terms in June 2004. 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 May 31,		Six Months Ended May 31,	
2004	2003	2004	2003

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Sales				
Performance Coatings & Finishes	\$ 53,268	\$ 50,732	\$ 97,622	\$ 90,036
Fiberglass-Composite Pipe	31,042	27,699	58,876	54,931
Water Transmission	36,608	36,656	65,320	71,021
Infrastructure Products	29,812	32,524	58,699	63,127
Eliminations	(214)	233	(333)	(650)
	-----	-----	-----	-----
Total Sales	\$ 150,516	\$ 147,844	\$ 280,184	\$ 278,465
	=====	=====	=====	=====

Income/(Loss) Before Interest and Income Taxes				
Performance Coatings & Finishes	\$ 1,081	\$ 3,314	\$ 109	\$ 3,511
Fiberglass-Composite Pipe	5,929	6,913	10,173	11,093
Water Transmission	2,565	6,426	2,502	8,802
Infrastructure Products	2,381	3,758	4,112	6,577
Corporate & Unallocated	(5,512)	(7,006)	(13,263)	(11,594)
	-----	-----	-----	-----
Total Income Before Interest and Income Taxes	\$ 6,444	\$ 13,405	\$ 3,633	\$ 18,389
	=====	=====	=====	=====

		May 31, 2004	November 30, 2003
		-----	-----
Assets			
Performance Coatings & Finishes		\$ 164,707	\$ 164,399
Fiberglass-Composite Pipe		152,333	147,326
Water Transmission		113,818	125,501
Infrastructure Products		69,996	70,202
Corporate & Unallocated		208,674	184,839
Eliminations		(169,390)	(158,775)
		-----	-----
Total Assets		\$ 540,138	\$ 533,492
		=====	=====

**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 May 31, 2004, the Company was a defendant in asbestos-related cases involving 18,998 claimants, compared to 18,489 claimants as of February 29, 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 May 31, 2004, there were new claims involving 537 claimants, dismissals and/or settlements involving 28 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended May 31, 2004 in connection with asbestos-related claims were approximately \$115.

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 May 31, 2004, the Company

was a defendant in silica-related cases involving 7,776 claimants, compared to 6,846 claimants as of February 29, 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 May 31, 2004, there were

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new claims involving 1,295 claimants, dismissals and/or settlements involving 365 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended May 31, 2004 in connection with silica-related claims were approximately \$61.

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

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 for the six months ended May 31, 2004 were as follows:

Balance, Beginning of Period	\$ 3,770
Payments	(1,064)
Change in Liability for Warranties Issued During the Period	1,641
	-----
Balance, End of Period	\$ 4,347
	=====

### Note 12. Goodwill and Other Intangible Assets

The annual goodwill and intangible asset impairment tests were completed during the quarter ended February 29, 2004. No impairment losses were identified as a result of these tests. Changes in the Company's carrying amount of goodwill by business segment were as follows:

Segment	November 30, 2003	Foreign Currency Translation Adjustments	May 31, 2004
-----	-----	-----	-----
Performance Coatings & Finishes	\$ 11,473	\$ 123	\$ 11,596
Fiberglass-Composite Pipe	1,440	-	1,440
Infrastructure Products	201	-	201
	-----	-----	-----
Total	\$ 13,114	\$ 123	\$ 13,237
	=====	=====	=====

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

	May 31, 2004		November 30, 2003	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
	-----	-----	-----	-----
Trademarks	\$ 2,163	\$ (2,042)	\$ 2,076	\$ (1,970)
Non-Compete Agreements	2,105	(1,880)	2,105	(1,790)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
	-----	-----	-----	-----
Total	\$ 6,410	\$ (6,064)	\$ 6,323	\$ (5,902)

All of the Company's intangible assets, other than goodwill, are subject to amortization. Amortization expense for the three and six months ended May 31, 2004 was \$52 and \$115, respectively. Amortization expense for the three and six months ended May 31, 2003 was \$46 and \$140, respectively. At May 31, 2004, estimated future amortization expense was as follows: \$90 for the remaining six months of 2004, \$173 for 2005, \$29 for 2006, \$29 for 2007 and \$25 for 2008.

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**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," which was released in December 2002 as an amendment to SFAS No. 123. 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:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2004	2003	2004	2003
Reported Net Income	\$ 6,873	\$ 7,825	\$ 4,120	\$ 10,000
(Deduct)/Add: Stock-based employee compensation (benefit)/ expense included in reported net income, net of tax	(311)	606	248	45
Deduct: Stock-based employee compensation expense determined under SFAS No. 123, net of tax	(258)	(206)	(413)	(40)
Pro Forma Net Income	\$ 6,304	\$ 8,225	\$ 3,955	\$ 10,005
Basic Net Income Per Share:				
As Reported	\$ .83	\$ 1.00	\$ .50	\$ 1.20
Pro Forma	\$ .76	\$ 1.05	\$ .48	\$ 1.20
Diluted Net Income Per Share:				
As Reported	\$ .82	\$ .97	\$ .49	\$ 1.20
Pro Forma	\$ .74	\$ 1.02	\$ .47	\$ 1.20

**Note 14. Employee Benefit Plans**

For the three and six months ended May 31, 2004 and 2003, net pension and postretirement costs were comprised of the following:

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U.S. Postretir

	Pension Benefits				U.S. Postretir	Health Car
	U.S. Plans		Non U.S. Plans			
	Three Months Ended May 31,					
	2004	2003	2004	2003	2004	
Service cost	\$ 862	\$ 713	\$ 202	\$ 193	\$ 28	\$
Interest cost	2,723	2,662	297	313	50	
Expected return on plan assets	(2,629)	(2,380)	(224)	(292)	(8)	
Amortization of unrecognized						
prior service cost	217	231	106	145	(4)	
Amortization of unrecognized						
net transition obligation	-	-	-	-	18	
Amortization of accumulated loss	1,538	1,345	-	-	12	
Net periodic cost	\$ 2,711	\$ 2,571	\$ 381	\$ 359	\$ 96	\$
	Six Months Ended May 31,					
	2004	2003	2004	2003	2004	
Service cost	\$ 1,724	\$ 1,426	\$ 404	\$ 386	\$ 56	\$
Interest cost	5,446	5,324	594	626	100	
Expected return on plan assets	(5,258)	(4,760)	(448)	(584)	(16)	
Amortization of unrecognized						
prior service cost	434	462	212	290	(8)	
Amortization of unrecognized						
net transition obligation	-	-	-	-	36	
Amortization of accumulated loss	3,076	2,690	-	-	24	
Net periodic cost	\$ 5,422	\$ 5,142	\$ 762	\$ 718	\$ 192	\$

The Company's policy is to make pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company expects to contribute \$3,547 to the U.S. pension plans by August 15, 2004, and also expects to contribute \$1,105 each quarter.

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In June 2004, the Company's Board of Directors resolved to terminate two executive benefit programs in consideration of ongoing costs, anticipated legislative restrictions on such programs, and a preference for executive benefit plans having more predictable costs. Ameron expects to incur a one-time pretax expense of approximately \$12.9 million (or \$15.0 million, after tax, due to restrictions on the deductibility of certain executive compensation) in the third quarter, if, in connection with the termination, all plan participants elect lump-sum payouts of their accrued benefits. Ameron previously purchased life insurance policies to cover benefits under the plans. The cash surrender values of these policies exceed the amount of lump-sum payments (totaling approximately \$25.4 million) that would be required if elected by all plan participants. Termination and settlement of the plans will reduce benefit expenses in future years, as well as reduce the \$2.7 million benefit expense forecasted for fiscal 2004 by approximately \$1.3 million. Ameron charged \$2.1 million under the plans in fiscal 2003.

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

#### **Ameron International Corporation and Subsidiaries May 31, 2004**

#### **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 serves primarily 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 2003 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 that are not readily apparent from other sources. 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 2003 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

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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.

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. 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 three 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 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. Actual results could vary significantly from projected results, and such deviation could materially impact the Company's consolidated financial statements. 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.



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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. Management considers it unlikely that resolution of any such matters would have a material adverse effect upon the Company's consolidated financial statements.

### LIQUIDITY AND CAPITAL RESOURCES

During the six months ended May 31, 2004, the Company generated cash from operating activities of \$20.6 million, compared to \$22.8 million in the same period in 2003. The lower operating cash flow in 2004 was primarily due to lower earnings and reduced liabilities, partially offset by lower current assets, principally receivables and inventories. Receivables decreased in the first half of 2004 due to the timing of collections. Inventories decreased due to improved inventory management, specifically related to the Performance Coatings & Finishes Group. Operating liabilities decreased due to payments of employee benefits and income taxes.

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Net cash used in investing activities totaled \$7.6 million during the six months ended May 31, 2004, compared to \$8.4 million in the same period in 2003. In 2004, net cash used in investing activities consisted of proceeds from the sale of assets of \$.2 million, offset by capital expenditures of \$7.8 million. Capital expenditures were primarily for normal replacement and upgrades of machinery and equipment. During the fiscal year ending November 30, 2004, the Company anticipates spending between \$15 and \$25 million on capital expenditures. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash used in financing activities was \$.7 million during the six months ended May 31, 2004, compared to \$9.0 million used in the same period in 2003. The net cash used in financing activities in 2004 consisted of repayment of debt of \$.3 million, payment of common stock dividends totaling \$3.3 million, and treasury stock purchases of \$.3 million. Issuance of common stock related to exercised stock options generated cash of \$3.2 million in 2004.

In June 2004, the Company extended 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 \$195.0 million plus 50% of net income and 75% of the proceeds from any equity issued after February 28, 2004. The Company's consolidated net worth exceeded the covenant amount by \$75.9 million as of May 31, 2004. 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 2.75 times. As of May 31, 2004, the Company maintained a debt leverage ratio of 1.62 times EBITDA. Lending agreements require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. As of May 31, 2004, qualifying tangible assets equaled 1.81 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA and rental expense less cash taxes must be at least 1.5 times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. As of May 31, 2004, the Company maintained a ratio of 1.88 times.

Cash and cash equivalents at May 31, 2004 totaled \$32.8 million, an increase of \$12.4 million from November 30, 2003. At May 31, 2004, the Company had total debt outstanding of \$94.2 million and approximately \$105 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing and the average borrowing level during 2004 were \$96.8 million and \$95.3 million, respectively.

In June 2004, the Company's Board of Directors resolved to terminate two executive benefit programs in consideration of ongoing costs, anticipated legislative restrictions on such programs, and a preference for executive benefit plans having more predictable costs. Ameron previously purchased life insurance policies to cover benefits under the plans. The cash surrender values of these policies exceed the amount of lump-sum payments (totaling approximately \$25.4 million) that would be required if elected by all plan participants.

Management believes that cash flow from operations and current cash balances, together with currently available lines of credit, will be sufficient to meet operating requirements in 2004. Cash available from operations could be affected by any general economic downturn or any

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decline or adverse changes in the Company's business, such as a loss of customers or significant raw material price increases. Management does not believe it likely 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 May 31, 2004 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)	\$ 94,152	\$ 8,333	\$ 36,667	\$ 23,452	\$ 25,700
Operating Leases	34,430	4,515	5,157	3,901	20,857
Total Contractual Obligations (b)	\$ 128,582	\$ 12,848	\$ 41,824	\$ 27,353	\$ 46,557

  

Commercial Commitments	Commitments Expiring Per Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Standby Letters of Credit (c)	\$ 2,152	\$ 2,152	\$ -	\$ -	\$ -
Total Commercial Commitments (b)	\$ 2,152	\$ 2,152	\$ -	\$ -	\$ -

(a) Included in long-term debt is \$3,452 outstanding under a revolving credit facility, and bank lines supported by the Revolver, which is due in 2008.

(b) The Company has no capitalized lease obligations, unconditional purchase obligations, guarantees, or standby repurchase obligations.

(c) 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.

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## RESULTS OF OPERATIONS

### General

Net income totaled \$6.9 million, or \$.82 per diluted share, on sales of \$150.5 million for the quarter ended May 31, 2004, compared to net income of \$7.8 million, or \$.97 per diluted share, on sales of \$147.8 million for the same period in 2003. The Performance Coatings & Finishes Group had higher sales as favorable foreign exchange rates impacted sales of Ameron's foreign operations. The Fiberglass-Composite Pipe Group had higher sales, benefiting from changes in foreign exchange rates and improved demand. The Infrastructure Products Group's sales were lower because of a strike early in the quarter. All operating segments had lower segment income. The segment income decline of the Fiberglass-Composite Pipe Group and part of the decline of the Water Transmission Group was due to the timing of dividends from joint ventures. Contributing to net income was a strong performance by TAMCO. The decline in net income resulted primarily from lower gross profits.

Net income totaled \$4.1 million, or \$.49 per diluted share, on sales of \$280.2 million for the six months ended May 31, 2004. The Company earned \$10.0 million, or \$1.24 per diluted share, on sales of \$278.5 million in the first half of 2003. The Performance Coatings & Finishes and Fiberglass-Composite Pipe Groups had higher sales primarily due to the impact of changing foreign currency rates. Sales of the Water Transmission and Infrastructure Products Groups declined because of the strikes. All operating segments had lower profits. Year-to-date net income declined as lower gross profits and higher selling, general and administrative expenses were partially offset by lower income taxes.

### Sales

Sales increased by \$2.7 million in the second quarter of 2004, compared to the same period in 2003. The sales of segments with foreign operations improved with changes in foreign exchange rates, especially Performance Coatings & Finishes. Additionally, the Fiberglass-Composite Pipe Group's sales increased due to improved demand. The Infrastructure Products Group's sales declined because of a labor dispute.

Year-to-date sales increased by \$1.7 million in 2004, compared to the first six months of 2003. The trends of the second quarter were consistent with the trends of the first half. Sales increases caused by foreign exchange and higher demand for fiberglass pipe were offset by the impact of

the strikes.

Performance Coatings & Finishes' sales increased by \$2.5 million in the second quarter and by \$7.6 million in the first half, compared to the same periods in 2003. All of the 2004 increases came from changing foreign exchange rates, as sales in foreign currencies by international operations were converted at a weaker U.S. dollar. Sales in local currencies by operations outside the U.S. were relatively flat, and sales in the U.S. were slightly lower. Sales of protective coatings in the U.S. and Europe declined as a result of continued weakness in spending in the industrial and chemical markets. Additionally, sales of coatings for use in offshore oil and gas production weakened in 2004 as offshore construction slowed in the U.S. The anticipated upturn in spending by industrial customers in the U.S. and Europe has been slower than expected.

Fiberglass-Composite Pipe's sales increased by \$3.3 million in the second quarter and by \$4.0 million in the six months ended May 31, 2004, compared to the same periods in the prior year. Changing foreign exchange rates contributed to a portion of the improvements. The balance came from increased demand, especially from European operations which benefited from higher oil prices and the resultant demand for piping used on offshore platforms in the former Soviet Union. Year-to-date sales of fiberglass oilfield tubing also increased as high oil prices spurred onshore development. Sales to markets in Asia were down slightly, reflecting project timing. Demand for fiberglass piping remains robust, driven by higher oil prices. Additionally, the escalating cost of competing products, especially steel piping, is enhancing the competitiveness of fiberglass piping.

The Water Transmission Group's sales were flat in the second quarter and declined \$5.7 million in the first half of 2004, compared to the same periods in 2003. The decline was the result of labor disputes at two of the Group's principal plants in Southern California. Workers at the two plants struck in early February. Agreement was reached at one of the plants in the first quarter, at the end of February, and at the second plant in the second quarter, at the end of March. Sales of protective lining products for sewer pipe also declined due to a cyclical slowdown in the waste water market and increased competition from alternative products and suppliers. 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 market for concrete and steel pressure pipe remains soft in the western U.S., affected by a cyclical lull in infrastructure spending and government budgetary constraints. Even though the business may be able to make up much of the revenue lost in the first half due to the strikes, full-year results may be below the unusually high levels of the last several years. Compounding the current market conditions are limits on the availability of steel. Ameron anticipates that sufficient steel will be provided to meet its forecasted commitments; however, the ability to service unforecasted demand may be limited. The needs for fresh and waste water infrastructure remain high in the western U.S.

Infrastructure Products' sales decreased \$2.7 million in the second quarter and \$4.4 million in the six months ended May 31, 2004, compared to the same periods in 2003. The decline was caused by a strike in Hawaii. A labor dispute at the Company's principal aggregates and ready-mix concrete operations on Oahu in Hawaii began in February and ended in early April. Construction spending in Hawaii was deferred during the strikes, and demand remains strong. Pole Products' sales, while slightly lower in the second quarter, were higher for the year, benefiting from the level of housing construction throughout the U.S.

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### **Gross Profit**

Gross profit in the second quarter of 2004 was \$36.6 million, or 24.3% of sales, compared to \$40.3 million, or 27.3% of sales, in the second quarter of 2003. Gross profit in the first six months of 2004 was \$66.5 million, or 23.7% of sales. The corresponding profit and margin in the first half of 2003 was \$73.0 million and 26.2%. Gross profit decreased \$3.7 million in the second quarter and \$6.5 million in the first six months due to lower margins and the impact of the strikes on plant utilization.

Gross profit of the Performance Coatings & Finishes Group declined \$.6 million in the second quarter and the first half of 2004, compared to the same periods in 2003. Profit margins were adversely impacted as the weak dollar lowered profits on sales by European operations into dollar-based markets in the Middle East and the former Soviet Union. Manufacturing costs increased in the U.S.

Fiberglass-Composite Pipe's gross profit increased \$1.0 million in the second quarter and \$1.7 million in the first six months of 2004, compared to 2003. The increases came primarily from improved plant utilization, especially in Europe. Profit margins declined slightly in the second quarter due to changes in mix.

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Water Transmission's gross profit decreased \$2.4 million in the second quarter and \$5.1 million in the first half, compared to the same periods in 2003. The decreases were primarily the result of lower profit on the mix of business as competitive pressures impacted margins because of the slow market conditions. Profits were also affected by inefficient plant utilization caused by the strikes and higher workers' compensation costs.

Gross profit of the Infrastructure Products Group decreased \$1.4 million in the second quarter and \$2.3 million for the first half in 2004, compared to the same periods in 2003. The decrease was caused by weather and the labor dispute in Hawaii, which reduced profits on lower sales and affected plant efficiencies.

### **Selling, General and Administration Expenses ("SG&A")**

SG&A totaled \$31.6 million, or 21.0% of sales, in the second quarter of 2004, compared to \$32.0 million, or 21.6% of sales, in the second quarter of 2003. Lower incentive compensation expense of \$2.1 million and lower stock compensation expense of \$1.3 million were partially offset by higher insurance and pension costs of \$.8 million and higher marketing costs of worldwide coatings operations of \$1.1 million. Additionally, SG&A expenses were \$.9 million higher as costs of foreign operations translated into higher U.S. dollars due to exchange rate changes.

For the six months ended May 31, 2004, SG&A totaled \$64.9 million, or 23.2% of sales. Corresponding expenses totaled \$60.6 million, or 21.7% of sales, in the same period of 2003. SG&A increased \$4.3 million on higher pension and insurance costs of \$1.6 million, the impact of foreign exchange of \$2.3 million, and higher marketing costs by the Performance Coatings & Finishes Group of \$1.3 million. Partially offsetting the increases in 2004 were lower incentive compensation expense and stock compensation expense, which totaled \$2.2 million, and \$.6 million from the recovery of certain claims. Additionally in 2003, SG&A included a recovery of roughly \$1.0 million, representing amounts agreed to be reimbursed to the Company by its own and a supplier's insurance companies for past legal fees and costs in excess of the negotiated settlement of the Central Arizona Project lawsuits.

In June 2004, the Company's Board of Directors resolved to terminate two executive benefit programs in consideration of ongoing costs, anticipated legislative restrictions on such programs, and a preference for executive benefit plans having more predictable costs. Ameron expects to incur a one-time pretax expense of approximately \$12.9 million in the third quarter, if, in connection with the termination, all plan participants elect lump-sum payouts of their accrued benefits. Termination and settlement of the plans will reduce benefit expenses in future years, as well as reduce the \$2.7 million benefit expense forecasted for fiscal 2004 by approximately \$1.3 million. Ameron charged \$2.1 million under the plans in fiscal 2003.

### **Other Income**

Other income declined from \$5.1 million in the second quarter of 2003 to \$1.5 million in the second quarter of 2004. Other income declined from \$6.0 million in the six months ended May 31, 2003 to \$2.1 million in the same period in 2004. Other income included royalties and fees from licensees, foreign currency transaction losses, and other miscellaneous income. Additionally, other income in the 2003 periods included dividends from Ameron's concrete-pipe and fiberglass-pipe ventures in Saudi Arabia of \$2.6 million and \$2.2 million, respectively. The fiberglass-pipe venture is benefiting from a strong demand for fiberglass pipe. The concrete-pipe venture is suffering from a cyclical lull in projects in Saudi Arabia, and dividends from the concrete pipe venture are expected to be less than in the prior year.

### **Interest**

Net interest expense totaled \$1.5 million in the second quarter of 2004, compared to \$1.8 million in the second quarter of 2003. The reduction in net interest expense was due to higher debt levels in the second quarter of 2003.

Net interest expense was flat in the first half of 2004, compared to the first half of 2003, as lower interest expense in the second quarter was offset by higher interest expense in the first quarter. The higher interest expense in the first quarter was caused by higher-interest, fixed-rate notes placed in the first quarter of 2003.

### **Provision for Income Taxes**

Income taxes declined to \$1.5 million in the second quarter of 2004 from \$3.8 million in the second quarter of 2003. Income taxes declined to \$.1 million in the six months ended May 31, 2004, compared to \$4.9 million in the comparable period of 2003. Lower earnings are anticipated from domestic operations. Income from certain foreign operations and joint ventures is taxed at rates that are lower than the U.S. statutory tax rates.

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The termination of the two benefit programs mentioned above is expected to result in an increase in tax rates for 2004. Approximately \$18.5 million of the payouts will not receive an associated tax benefit due to restrictions on the deductibility of certain executive compensation.

### **Equity in Earnings of Joint Venture, Net of Taxes**

Equity income, which consists of Ameron's share of the results of TAMCO, increased from less than \$.1 million in the second quarter of 2003 to \$3.4 million in the second quarter of 2004. In the first half of 2004, equity income totaled \$3.9 million, compared to a loss of almost \$.1 million in the first half of 2003. Ameron owns 50% of TAMCO, a mini-mill that produces steel rebar for the construction industry in the western U.S. The worldwide market for steel products increased dramatically in 2004 because of demand for steel in China. TAMCO is projected to perform well throughout 2004.

### **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 2003 Annual Report.

The Company utilizes significant quantities of steel, primarily by the Water Transmission Group and, to a lesser extent, the Infrastructure Products Group. The Company's principal steel suppliers have placed the Company's operations on allocation. Management believes that sufficient steel will be provided to meet forecasted commitments, at agreed prices.

### **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 May 31, 2004 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 May 31, 2004.

### ***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 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 May 31, 2004, the Company was a defendant in asbestos-related cases involving 18,998 claimants, compared to 18,489 claimants as of February 29, 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 May 31, 2004, there were new claims involving 537 claimants, dismissals and/or settlements involving 28 claimants and no judgments. Net costs and expenses incurred by the Company for the six months ended May 31, 2004 in connection with asbestos-related claims were less than \$.2 million.

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 May 31, 2004, the Company was a defendant in silica-related cases involving 7,776 claimants, compared to 6,846 claimants as of February 29, 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 May 31, 2004, there were new claims involving 1,295 claimants, dismissals and/or settlements involving 365 claimants and no judgments. Net costs and expenses incurred by the Company for the quarter ended May 31, 2004 in connection with silica-related claims were less than \$.1 million.

## 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 \$8.3 million of consolidated retained earnings were not restricted at May 31, 2004.

### 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 **
3/1/04 thru 3/31/04	-	N/A		
4/1/04 thru 4/30/04	-			
5/1/04 thru 5/31/04	-			

\*\*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 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on March 24, 2004. Represented at the meeting, in person or by proxy, were 7,700,501 shares of common stock (93.7% of the total shares outstanding as of the date of the meeting). Stockholders voted on the following matters at this meeting:

### 1. Election of Directors

The three nominees named in the Company's proxy statement, Messrs. Hagan, Haines and Poulsen, having received the greatest number of votes cast, were re-elected to

serve for another term with each receiving not less than 7,128,400 votes on a cumulative basis.

Other directors whose terms of office continued after the meeting are: Peter K. Barker, David Davenport, John F. King, Thomas L. Lee, James S. Marlen and John E. Peppercorn.

## **2. Proposal to Ratify the Appointment of Auditors**

7,634,987 shares (99.1% of the shares represented at the meeting and 92.9% of the total shares outstanding as of the date of the meeting) voted in favor of the proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of the Company for fiscal year 2004. Of the shares represented at the meeting, 55,077 (0.7%) voted against the proposal.

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## **3. Proposal to Approve the Amendment to the Certificate of Incorporation**

6,931,255 shares (90.0% of the shares represented and voting and 84.4% of the total shares outstanding as of the date of the meeting) voted in favor of the proposal to approve the amendment to the Certificate of Incorporation. Of the shares represented at the meeting, 736,126 shares (9.6%) voted against the proposal.

## **4. Proposal to Approve the 2004 Stock Incentive Plan**

5,806,626 shares (84.8% of the 6,847,212 shares represented and voting on this proposal and 70.7% of the total shares outstanding as of the date of the meeting) voted in favor of the proposal to approve the 2004 Stock Incentive Plan. Of the 6,847,212 shares voting, 758,614 shares (11.1%) voted against the proposal.

## **Item 5. Other Information**

In June 2004, the Company's Board of Directors resolved to terminate two executive benefit programs in consideration of ongoing costs, anticipated legislative restrictions on such programs, and a preference for executive benefit plans having more predictable costs. Ameron expects to incur a one-time pretax expense of approximately \$12.9 million (or \$15.0 million, after tax, due to restrictions on the deductibility of certain executive compensation) in the third quarter, if, in connection with the termination, all plan participants elect lump-sum payouts of their accrued benefits. Ameron previously purchased life insurance policies to cover benefits under the plans. The cash surrender values of these policies exceed the amount of lump-sum payments (totaling approximately \$25.4 million) that would be required if elected by all plan participants. Termination and settlement of the plans will reduce benefit expenses in future years, as well as reduce the \$2.7 million benefit expense forecasted for fiscal 2004 by approximately \$1.3 million. Ameron charged \$2.1 million under the plans in fiscal 2003.

## **Item 6. Exhibits and Reports on Form 8-K**

A Form 8-K was filed on March 24, 2004 to report the Company's financial results for the first quarter ended February 29, 2004, as reported in a press release dated March 24, 2004.

A Form 8-K was filed on March 25, 2004 to report, under Item 5, the Company's quarterly dividend of \$.20 per share, as reported in a press release dated March 25, 2004.

A Form 8-K was filed on March 26, 2004 to report, under Item 5, the Company's plans to construct a Fiberglass Pipe Plant in Malaysia, as reported in a press release dated March 26, 2004.

A Form 8-K was filed on March 29, 2004 to report, under Item 5, the Company's settlement of a labor dispute, as reported in a press release dated March 29, 2004.

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A Form 8-K was filed on April 5, 2004 to report, under Item 5, the Company's settlement of a labor dispute, as reported in a press release dated April 5, 2004.

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(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.

Corporation

Ameron International

30, 2004

Date: June

By: /s/ Gary Wagner

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Gary Wagner

Senior Vice President, Chief Financial Officer

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James S. Marlen, Chairman of the Board, 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;

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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)) 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) 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
  - c) 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.

June 30, 2004

/s/ James S. Marlen

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James S. Marlen  
Chairman of the Board, President & Chief Executive Officer

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)) 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) 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
  - c) 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.

June 30, 2004

/s/ Gary Wagner

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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 May 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Marlen, Chairman of the Board, 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: /s/ James S. Marlen

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James S. Marlen  
Chairman of the Board, President & Chief Executive Officer  
June 30, 2004

By: /s/ Gary Wagner

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Gary Wagner  
Senior Vice President & Chief Financial Officer  
June 30, 2004

\* 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.

