

NORTH AMERICAN GALVANIZING & COATINGS INC

Form 10-Q

April 30, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended March 31, 2010

Commission File No. 1-3920

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
(Exact name of the registrant as specified in its charter)

Delaware  
(State of Incorporation)

71-0268502  
(I.R.S. Employer Identification No.)

5314 S. Yale Avenue, Suite 1000, Tulsa, Oklahoma 74135  
(Address of principal executive offices)

(918) 494-0964  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, as defined in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐      Accelerated filer ☒      Non-accelerated filer ☐      Smaller Reporting Company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2010:  
Common Stock \$ .10 Par Value . . . . . 16,753,943

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NORTH AMERICAN GALVANIZING & COATINGS, INC.

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## Forward Looking Statements or Information

Certain statements in this Form 10-Q, including information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, constitute “Forward-Looking Statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are typically punctuated by words or phrases such as “anticipates,” “estimate,” “should,” “may,” “management believes,” and words or phrases of similar import. The Company cautions investors that such forward-looking statements included in this Form 10-Q, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company’s stockholders and other publicly available statements issued or released by the Company involve significant risks, uncertainties, and other factors which could cause the Company’s actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, the raw materials cost of zinc and the cost of natural gas; changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company’s Form 10-K filed on February 24, 2010 with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
North American Galvanizing and Coatings, Inc

We have reviewed the accompanying condensed consolidated balance sheet of North American Galvanizing & Coatings, Inc. and subsidiary (the "Company") as of March 31, 2010, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2010 and 2009 and stockholders' equity for the three-month period ending March 31, 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of North American Galvanizing & Coatings, Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Tulsa, Oklahoma  
April 30, 2010

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share amounts)

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$25,693	\$22,982
Trade receivables—less allowances of \$106 for 2010 and \$99 for 2009	9,000	9,467
Raw materials inventories	6,003	5,995
Deferred tax asset—net	495	895
Receivables from insurance (Note 2)	—	1,608
Income taxes receivable	178	738
Prepaid expenses and other assets	624	687
Total current assets	41,993	42,372
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	2,504	2,167
Galvanizing plants and equipment	47,471	47,250
	49,975	49,417
Less—accumulated depreciation	(24,996)	(24,384)
Construction in progress	1,178	1,430
Total property, plant and equipment—net	26,157	26,463
<b>GOODWILL—Net</b>	3,448	3,448
<b>OTHER ASSETS</b>	1,327	660
<b>TOTAL ASSETS</b>	\$72,925	\$72,943
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$3,068	\$4,203
Accrued payroll and employee benefits	1,146	2,144
Advance from insurance (Note 2)	565	—
Accrued taxes	279	98
Other accrued liabilities	1,560	2,299
Total current liabilities	6,618	8,744
<b>SUBORDINATED NOTES PAYABLE</b>	4,443	4,357
<b>DEFERRED TAX LIABILITY—Net</b>	739	950
Total liabilities	11,800	14,051
<b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock—\$.10 par value, 50,000,000 shares authorized		

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Issued—16,754,943 shares in 2010 and 16,593,556 shares 2009	1,675	1,659
Additional paid-in capital	15,992	15,396
Retained earnings	43,462	41,837
Common shares in treasury at cost— 1,000 in 2010	(4 )	—
Total stockholders' equity	61,125	58,892
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$72,925</b>	<b>\$72,943</b>

See notes to condensed consolidated financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)

	For the Three Months Ended March 31	
	2010	2009
SALES	\$16,315	\$20,609
COST AND EXPENSES:		
Cost of sales excluding depreciation and amortization	10,491	12,083
Selling, general and administrative expenses	2,705	2,693
Depreciation and amortization	967	887
Total costs and expenses	14,163	15,663
Gain from insurance proceeds	717	—
OPERATING INCOME	2,869	4,946
Interest expense	(298)	—
Interest income and other	8	13
INCOME BEFORE INCOME TAXES	2,579	4,959
INCOME TAX EXPENSE	954	1,498
NET INCOME	\$1,625	\$3,461
NET INCOME PER COMMON SHARE:		
Basic	\$0.10	\$0.21
Diluted	\$0.10	\$0.21

See notes to condensed consolidated financial statements.



NORTH AMERICAN GALVANIZING & COATINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
 THREE MONTHS ENDED MARCH 31, 2010 AND 2009  
 (In thousands)

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Net income	\$1,625	\$3,461
(Gain) Loss on disposal of assets	178	(7 )
Depreciation and amortization	967	887
Amortization of subordinated debt discount	86	—
Amortization of subordinated debt issuance costs	27	—
Deferred income taxes	189	(581 )
Non-cash share-based compensation	290	263
Non-cash directors' fees	175	107
Changes in operating assets and liabilities:		
Accounts receivable—net	467	(261 )
Inventories and other assets	1,529	(2,176 )
Accounts payable, accrued liabilities and other	(2,602 )	550
Cash provided by operating activities	2,931	2,243
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(364 )	(1,752 )
Proceeds from sale of assets	1	7
Cash used in investing activities	(363 )	(1,745 )
<b>FINANCING ACTIVITIES:</b>		
Tax benefits realized from vested directors' restricted stock awards and stock options exercised	134	—
Proceeds from exercise of stock options	9	42
Purchase of common stock for the treasury	—	(166 )
Cash provided by (used in) financing activities	143	(124 )
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,711</b>	<b>374</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	22,982	9,322
End of period	\$25,693	\$9,696
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Income taxes	\$(7 )	\$527
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisitions of fixed assets included in payables at period end	\$476	\$171

See notes to condensed consolidated financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)  
THREE MONTHS ENDED MARCH 31, 2010  
(In thousands, except share amounts)

	Common Stock \$.10 Par Value		Additional	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	
BALANCE—January 1, 2010	16,593,556	\$ 1,659	\$ 15,396	\$ 41,837	—	\$ —	\$ 58,892
Net income	—	—	—	1,625	—	—	1,625
Incentive Stock Plan Compensation			290				290
Stock units for Director Stock Unit Program			175				175
Excess tax benefit on vested director's restricted stock awards			128				128
Issuance of common stock for stock option transactions, including tax benefit	5,000	—	15	—	—	—	15
Issuance of common stock for Director Stock Unit Program	36,386	4	(4 )	—	—	—	—
Issuance of common stock for nonvested stock awards	120,001	12	(12 )	—	—	—	—
Forfeiture of Restricted Stock	—	—	4	—	1,000	(4 )	—
BALANCE—March 31, 2010	16,754,943	\$ 1,675	\$ 15,992	\$ 43,462	1,000	\$ (4 )	\$ 61,125

See notes to condensed consolidated financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009  
UNAUDITED

Note 1.

Basis of Presentation

The condensed consolidated financial statements included in this report have been prepared by North American Galvanizing & Coatings, Inc. (the "Company") pursuant to its understanding of the rules and regulations of the Securities and Exchange Commission for interim reporting and include all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation. The condensed consolidated financial statements include the accounts of the Company and its subsidiary.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures are adequate to make the information presented not misleading. However, these interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the periods. Actual results will be determined based on the outcome of future events and could differ from the estimates. The Company's sole business is hot dip galvanizing and coatings which is conducted through its wholly owned subsidiary, North American Galvanizing Company ("NAGC").

Note 2.

Insurance Proceeds

The Company experienced a fire November 20, 2009 at its St. Louis facility. There were no injuries, and there was no environmental contamination outside the plant. The plant is currently idle, and the fire affected the Company's 2010 earnings due to loss of business. The Company is transporting product to be galvanized from the St. Louis market to other North American Galvanizing Company plants in its eleven plant network. The plant property is insured at a value that approximates replacement cost, and the insurance coverage also includes coverage for business interruption loss and reimbursement for extra expense. In 2009, the Company removed the net book value of building and equipment and inventory destroyed in the fire from property, plant and equipment and inventory and a receivable from insurance of \$1.6 million was recorded which was equivalent to the net book value of destroyed assets plus related expenses incurred through year-end. In February 2010, the Company received a partial insurance payment of \$3.6 million related to the St. Louis fire. \$1.6 million of the proceeds was reimbursement for zinc inventory and resulted in the Company recording a gain of \$0.4 million, net of tax, on the zinc inventory. The remaining \$2.0 million of the proceeds was a general advance. The total expenses incurred due to the fire, exclusive of the zinc inventory loss, in 2009 and 2010 totaled \$1.4 million. The excess of the general advance (\$2.0 million) over the fire expenses exclusive of the zinc loss (\$1.4 million) is recorded as an Advance from Insurance (\$0.6 million) on the balance sheet. At the completion of the claim, the Company expects to record additional insurance gains. The claim with the insurance company is not complete and the Company expects to receive additional proceeds from insurance.

Note 3.

Share-based Compensation

On July 29, 2009, the shareholders approved the 2009 Incentive Stock Plan (the "Plan"), which includes the Director Stock Unit Program. The Plan permits the grant of share options and shares to its employees and directors for up to 2,500,000 shares of common stock. Director Stock Unit Program shares are issued under the plan. The Company believes that such awards better align the interests of its employees and directors with those of its shareholders. The Plan combines two former share-based compensation plans, the 2004 Incentive Stock Plan and the Director Stock Unit Program.

Share-based compensation cost, exclusive of the Director Stock Unit Program, was \$290,000 and \$263,000 for the three months ended March 31, 2010 and 2009, respectively.

**Non-vested Shares.** During January 2010, the Compensation Committee recommended and the Board of Directors approved a grant totaling 120,001 non-vested shares for management employees. The weighted-average grant price of non-vested stock granted in 2010 was \$5.38. During January 2009, the Compensation Committee recommended and the Board of Directors approved a grant totaling 153,168 non-vested shares for management employees and 79,998 non-vested shares for non-management directors. The weighted-average grant price of non-vested stock granted in 2009 was \$3.67. Non-vested shares granted to management employees, including management directors, vest and become nonforfeitable on the date that is four years after the date of grant; or if the participant is a non-employee director of the Company at the time of the grant, the date that is two years after the date of the grant. The Company is recognizing this compensation expense over the two year or four year vesting period, as applicable, on a ratable basis. Non-vested shares are valued at market value on the grant date. The Company recognized \$215,000 and \$176,000 in amortization expense related to non-vested shares in the three months ended March 31, 2010 and 2009, respectively.

**Stock Options.** Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards usually vest based on 4 years of continuous service and have 10-year contractual terms. No stock options have been issued since February 2007. The Company recognized \$75,000 and \$87,000 in the three months ended March 31, 2010 and 2009, respectively.

**Director Stock Unit Program.** At the Company's Annual Meeting held July 29, 2009, stockholders approved the 2009 Incentive Stock Plan (the "Plan"), which includes the Director Stock Unit Program (the "Program"). Following the shareholder meeting at which the Plan was approved, the Board of Directors' Compensation Committee approved an amendment to the 2009 Incentive Stock Plan. The amendment to the 2009 Incentive Stock Plan changes the percentage that each director is required to defer in fees each calendar year from a minimum of 50% to a minimum of 100%. The deferred fees will be converted into stock unit grants at the average of the fair market value for a share of stock for the 10 trading days before the date the director fees otherwise would have been payable in cash. The Company makes a matching Stock Unit contribution equal to 75% of the amount deferred by the directors as of the same quarterly payments dates. On December 4, 2009, the Board of Directors approved a recommendation proposed by the Company's Compensation Committee to adjust the amount by which the Company will match a director's deferred fees from seventy five percent (75%) to one hundred percent (100%). This amendment is an extension of the July, 2009 amendment that requires all directors to mandatorily defer 100% of their fee into the Company's Director Stock Unit Program, and is effective January 1, 2010.

The Compensation Committee also recommended to the Board of Directors an increase in the annual fee for outside directors from \$35,000 to \$50,000 effective October 1, 2009. The last time the fee was increased was in 2006. The Board of Directors approved the recommended increase.

The management director is required to participate in the deferral program and the amendment described above applies to his participation as well. The President and CEO, as a management director, receives no additional cash

compensation for his service as a director. The Company reduces the CEO's annual salary by the amount deferred under the Director Stock Unit Program. The Company matches deferrals by the management director with Stock Units at the same rate as it matches deferrals for non-management directors.

Stock under this program is eligible for delivery five calendar years following the year for which the deferral is made subject to acceleration upon the resignation or retirement of the director or a change in control.

The directors were required to defer all of their board fees for 2010. All of the Company's non-management directors agreed to defer 100% of the annual board fee for both 2010 and 2009, and the Company's chief executive officer agreed to defer a corresponding amount of his salary in 2010 and 2009. During the first three months of 2010, fees, salary and Company matching deferred by the directors represented a total of 36,386 stock unit grants valued at \$4.81 per stock unit. During the first three months of 2009, fees, salary and Company matching deferred by the directors represented a total of 29,050 stock unit grants valued at \$3.69 per stock unit. Company matching contributions under this plan were \$88,000 and \$46,000 in the first three months of 2010 and 2009, respectively.

#### Note 4. Earnings Per Common Share

Basic earnings per common share for the periods presented are computed based upon the weighted average number of shares outstanding. Diluted earnings per common share for the periods presented are based on the weighted average shares outstanding, adjusted for the assumed exercise of stock options, for non-vested shares and warrants issued for the subordinated debt using the treasury stock method.

Three Months Ended March 31	Number of Shares	
	2010	2009
Basic	16,144,951	15,739,454
Diluted	16,830,366	16,174,134

There were no options priced higher than the share market value at March 31, 2010.

#### Note 5. Credit Agreement

On July 17, 2009, the Company entered into a new credit agreement between the Company and its subsidiary North American Galvanizing Company as borrowers and Wells Fargo Bank, N.A. as administrative agent, swing line lender and letter of credit issuer. The existing credit agreement with Bank of America, N.A. was canceled.

The new credit agreement provides for a revolving credit facility in the aggregate principal amount of \$25 million with future increases of up to an aggregate principal amount of \$15 million. The purpose of the new facility is to refinance a former credit agreement, provide for issuance of standby letters of credit, provide funding for acquisitions, and for other general corporate purposes. As of March 31, 2010, the Company has not borrowed under the new credit agreement, which has a maturity date of July 17, 2012.

Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the new agreement, and the credit agreement is secured by full and unconditional guaranties from North American Galvanizing Company's subsidiaries. The credit agreement provides for an applicable margin ranging from 1.50% to 2.50% over LIBOR and a commitment fee of .25%. The applicable margin was 1.75% at March 31, 2010.

The credit agreement requires the Company to maintain compliance with certain covenants. At March 31, 2010 the Company was in compliance with the covenants of the new credit agreement. The required covenants of the new agreement are as follows: Funded Debt to EBITDA ratio – maximum allowed of 3.25; Fixed Charge Coverage Ratio – minimum allowed of 1.1 and Asset Coverage Ratio – minimum required of 1.50. The credit agreement also has other restrictions.

At March 31, 2010, the Company had unused borrowing capacity of \$24.7 million, based on no borrowings outstanding under the revolving credit facility and \$0.3 million of letters of credit to secure payment of current and future workers' compensation claims.

Note 6.

#### Commitments and Contingencies

The Company has commitments with domestic and foreign zinc producers and brokers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment or are based on such quoted prices at the time of delivery. At March 31, 2010, the Company had un-priced commitments for the purchase of approximately 682 tons of zinc but did not have any priced future commitments for the procurement of zinc at March 31, 2010.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company expects to continue evaluating hedging instruments to minimize the impact of zinc price fluctuations. The Company had no derivative instruments required to be reported at fair value at March 31, 2010 or December 31, 2009, and did not utilize derivatives in the three-month period ended March 31, 2010 or the year ended December 31, 2009, except for the forward purchase agreements described above, which are accounted for as normal purchases.

The Company has various commitments primarily related to vehicle and equipment operating leases, facilities operating leases, and zinc purchase commitments. The Company's off-balance sheet contractual obligations at March 31, 2010, consist of \$1.3 million for long-term operating leases for vehicles, office space, office equipment, galvanizing facilities and galvanizing equipment. In addition, at March 31, 2010 the Company had approximately \$1.8 million in outstanding purchase commitments for various machinery, equipment and building improvements and \$0.6 million in outstanding commitments for other operating obligations. The various leases for galvanizing facilities, including option renewals, expire from 2010 to 2017. The vehicle leases expire annually on various schedules through 2012. NAGC periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc can be for up to one year.

On April 13, 2010, Morris Akerman, a purported stockholder of the Company, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders of the Company, captioned *Akerman v. North American Galvanizing & Coatings, Inc., et al.*, C.A. No. 5407-CC. On April 16, 2010, Gerald Beddow, a purported stockholder of the Company, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders of the Company, captioned *Beddow v. North American Galvanizing & Coatings, Inc., et al.*, C.A. No. 5420-VCL. On April 16, 2010, Barbara Gibbs, a purported stockholder of the Company, filed a putative class action complaint in the County Court for Rogers County, Oklahoma on behalf of herself and all other similarly situated stockholders of the Company, captioned *Gibbs v. North American Galvanizing & Coatings, Inc., et al.*, Case No. CJ-2010-308. On April 20, 2010, Richard Devivo, a purported stockholder of the Company, filed a putative class action complaint in the District Court for Tulsa County, Oklahoma on behalf of himself and all other similarly situated stockholders of the Company, captioned *Devivo v. Morrow, et al.*, Case No. 2010-02551.

The stockholder complaints purport to assert claims against the Company, the board of directors of the Company, AZZ and Purchaser alleging breaches of fiduciary duty and aiding and abetting breaches of fiduciary duty in connection with the Offer to Purchase. Among other things, the complaints allege that the Company is being sold at an unfair price. Among other relief, plaintiffs in each of these actions seek an order enjoining defendants from proceeding with the Merger Agreement, as well as rescissory damages, restitution, and attorneys' fees. Discovery has not commenced, and no trial has been set in any of these actions.



While the lawsuits are in the preliminary stages, the Company believes that they are entirely without merit and intends to defend against them vigorously.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency (“IEPA”) that it was one of approximately 60 potentially responsible parties under the Comprehensive Environmental Response, Compensation, and Liability Information System (“CERCLIS”) in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The IEPA notice includes NAGC as one of the organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the potentially responsible parties or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 potentially responsible parties is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued.

In September 2008, the United States Environmental Protection Agency (the “EPA”) notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas. This matter pertains to galvanizing facilities of a Company subsidiary and its disposal of waste, which was handled by their supplier in the early 1980’s. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and accepted the EPA’s offer before the deadline of December 30, 2008. The settlement amount of \$112,145 was paid in February 2010.

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company’s potential future costs in this area.

North American Galvanizing & Coatings, Inc. and its subsidiary are parties to a number of other lawsuits and environmental matters which are not discussed herein. Management of the Company, based upon their analysis of known facts and circumstances and reports from legal counsel, does not believe that any such matter will have a material adverse effect on the results of operations, financial condition or cash flows of the Company.

See also Note 9.

Note 7.

#### Stockholders’ Equity

During the second quarter 2009, the holders of a majority of the outstanding shares of common stock of North American Galvanizing & Coatings, Inc. (the “Company”) provided written consent approving an amendment to the Company’s Restated Certificate of Incorporation, as amended, pursuant to the Company’s consent solicitation authorized by the Company’s Board of Directors. Through the written consent, the holders of a majority of the outstanding shares of the Company’s common stock approved an increase in the number of authorized shares of the Company’s common stock from 18,000,000 shares to 25,000,000 shares.

The Company filed a Certificate of Amendment of the Restated Certificate of Incorporation, as amended, with the Secretary of State of Delaware on April 2, 2009, which provides that the aggregate number of shares of the Company's common stock which the Company shall have authority to issue is 25,000,000 shares.

Shareholders at the Company's Annual Meeting on July 29, 2009 approved a proposal to increase the number of authorized shares of the Company's common stock from 25,000,000 shares to 50,000,000 shares.

The Company filed a Certificate of Amendment of the Restated Certificate of Incorporation, as amended, with the Secretary of State of Delaware on January 12, 2010, which provides that the aggregate number of shares of the Company's common stock which the Company shall have authority to issue is 50,000,000 shares.

Note 8.

Subordinated Debt

On August 18, 2009, the Company accepted subscription agreements for \$7.3 million in subordinated debt with stock warrants to purchase 1,095,000 shares of common stock of the Company. The private placement transaction was completed August 21, 2009. \$3.1 million of the proceeds has been allocated to the stock warrants and the resulting discount on subordinated debt is being amortized to interest expense using the effective interest method. The purpose of this additional financing is to facilitate the Company's growth strategy. The private placement was offered to a group of current large shareholders and a limited number of other accredited investors who had expressed an interest in investing in the Company. The 10% subordinated notes have a five year maturity and the warrants are immediately exercisable, for a period of up to seven years. Terms of the warrants permit the holder to purchase shares of the Company's common stock at any time prior to the expiration date, for cash at an Exercise Price of \$5.20 per share (market value of common stock at date subscription was accepted). As of March 31, 2010 no warrants had been exercised.

Note 9.

Merger Agreement

On March 31, 2010, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with AZZ incorporated, a Texas corporation ("AZZ"), and Big Kettle Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of AZZ ("Purchaser").

Pursuant to the Merger Agreement, and upon the terms and subject to the conditions described therein, Purchaser has agreed to commence a tender offer (the "Offer") for all of the Company's outstanding shares of common stock, par value \$0.10 per share (the "Company Common Stock"), at a purchase price of \$7.50 per share in cash, without interest (less any applicable withholding taxes) (as may be increased pursuant to the Merger Agreement, the "Offer Price"). Purchaser has agreed to commence the Offer promptly after April 30, 2010, but no later than May 7, 2010, and the Offer shall expire on the 20th business day from and including the commencement date unless extended in accordance with the terms of the Merger Agreement and applicable law. The obligation of AZZ and Purchaser to consummate the Offer is subject to customary conditions, including (1) that two-thirds (2/3) of the outstanding shares of Company Common Stock (determined on a fully diluted basis and taking into account shares of Company Common Stock issuable upon exercise of options, shares of Company Common Stock held in the Company's Director Stock Unit Program and restricted shares of Common Stock, in each case whose holders have executed the Stockholders Agreement (as defined below)) shall have been validly tendered and not withdrawn prior to the expiration of the Offer and (2) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The applicable waiting period was terminated early on April 23, 2010.

Upon successful completion of the Offer, and subject to the terms and conditions of the Merger Agreement, Purchaser will be merged with and into the Company, with the Company surviving as a wholly owned subsidiary of AZZ (the "Merger"). At the effective time of the Merger, each issued and outstanding share of Company Common Stock, other than shares held in the treasury of the Company or owned by AZZ, Purchaser or any of their subsidiaries, and shares

of Company Common Stock held by stockholders who properly demand appraisal rights, will be converted into the right to receive the Offer Price.

In the Merger Agreement, the Company granted to Purchaser an irrevocable option (the “Top-Up Option”), upon the terms and subject to the conditions set forth in the Merger Agreement (including the Purchaser owning after the completion of the Offer at least eighty percent (80%) but less than ninety percent (90%) of all outstanding shares of Company Common Stock), to purchase at the Offer Price a number of authorized but unissued shares of Company Common Stock that, when added to the number of shares of Company Common Stock owned by AZZ, Purchaser or their affiliates and shares of Company Common Stock issuable upon exercise of options, shares of Company Common Stock held in the Company’s Director Stock Unit Program and restricted shares of Common Stock, in each case whose holders have executed the Stockholders Agreement, would constitute at least one share more than 90% of the shares of Company Common Stock then outstanding (the “Top Up Shares”). In no event will the Top-Up Option be exercisable for a number of shares in excess of the number of authorized but unissued shares of Company Common Stock as of immediately prior to the issuance of the Top-Up Shares. The Top-Up Option will terminate upon the earlier of: (x) the fifth business day after the later of (1) the expiration date of the Offer and (2) the expiration of any “subsequent offering period”; and (y) the termination of the Merger Agreement in accordance with its terms.

The Merger Agreement contains representations, warranties and covenants customary for a transaction of this nature.

The Merger Agreement permitted the Company to solicit alternative acquisition proposals from third parties until April 30, 2010. During this period, the Company’s board of directors, with the assistance of its financial advisor Stephens Inc., aggressively solicited acquisition proposals from third parties in order to ascertain whether a superior alternative transaction for Company stockholders was available, and to confirm the advisability of the tender offer and the merger. Over [50] companies, including a mix of strategic parties and financial sponsors, were contacted during this period. To date, the Company has not received an acquisition proposal from any of the parties contacted. In addition, the Company may, at any time, upon the terms and subject to the conditions of the Merger Agreement, respond to any unsolicited proposal that constitutes, or could reasonably be expected to lead to, a Superior Proposal (as defined in the Merger Agreement). There can be no assurance that this process will result in an alternative transaction.

The Merger Agreement also includes customary termination provisions for the Company and AZZ and provides that, in connection with the termination of the Merger Agreement under specified circumstances, the Company will be required to pay AZZ a termination fee of \$3 million (inclusive of expenses incurred by AZZ and Purchaser), except that the termination fee will be \$2 million (inclusive of expenses incurred by AZZ and Purchaser) in the event the Merger Agreement is terminated by the Company in order to accept a Superior Proposal from a third party with whom the Company has had ongoing discussions or negotiations prior to April 30, 2010 and has been identified in writing to AZZ.

The foregoing description of the Merger Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, which is reference in Item 6. Exhibits 10.7 hereto and is incorporated herein by reference. The Merger Agreement has been attached to provide investors with information regarding its terms. It is not intended to provide any other factual information about the parties. In particular, the representations, warranties and covenants set forth in the Merger Agreement (1) were made solely for purposes of the Merger Agreement and solely for the benefit of the contracting parties, (2) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made to AZZ and Purchaser in connection with the Merger Agreement, (3) will not survive consummation of the Merger, (4) are qualified in certain circumstances by a materiality standard which may differ from what may be viewed as material by investors, (5) were made only as of the date of the Merger Agreement or such other date as is specified in the Merger Agreement, and (6) may have been included in the Merger Agreement for the purpose of allocating risk between the parties rather than establishing matters as facts. Investors are not third party beneficiaries under the Merger Agreement, and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of the parties. Moreover, information concerning the subject matter of the representation and

warranties may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in subsequent public disclosure.

Concurrently with the execution and delivery of the Merger Agreement and as a condition to AZZ's and Purchaser's willingness to enter into the Merger Agreement, AZZ and Purchaser have entered into a Stockholders Agreement, dated as of March 31, 2010 (the "Stockholders Agreement"), with the directors of the Company and certain trusts for the benefit of their families, pursuant to which each director and trust, in his or her capacity as a stockholder of the Company, has agreed, subject to the terms and conditions of the Stockholders Agreement, to, among other things, (1) tender their shares of Company Common Stock in the Offer, (2) provide Purchaser with an option to purchase any shares of Company Common Stock held by such stockholders that are not tendered in the Offer (including any shares of Company Common Stock that are issuable upon exercise of options, that are held in trust pursuant to the Company's Director Stock Unit Program or that constitute restricted shares), (3) vote their shares of Company Common Stock in favor of the Merger, and (4) refrain from disposing of their shares of Company Common Stock and soliciting alternative acquisition proposals to the Merger. The directors and trusts also granted Purchaser a proxy to vote any shares of Company Common Stock held by such individuals in favor of the Merger. The Stockholders Agreement will terminate upon the earlier to occur of (A) the effective time of the Merger, (B) the termination of the Merger Agreement in accordance with its terms or (C) the closing of the exercise of the option described in clause (2) above or the expiration of the option described in clause (2) above, whichever occurs earlier.

The foregoing description of the Stockholders Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Stockholders Agreement, a form of which is attached as Exhibit A to the Merger Agreement, which is referenced in Item 6. Exhibits 10.7 and is incorporated herein by reference.

North American Galvanizing & Coatings, Inc.

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

### GENERAL

North American Galvanizing is a leading provider of corrosion protection for iron and steel components fabricated by its customers. Hot dip galvanizing is the process of applying a zinc coating to fabricated iron or steel material by immersing the material in a bath consisting primarily of molten zinc. Based on the number of its operating plants, the Company is one of the largest merchant market hot dip galvanizing companies in the United States.

During the three-month period ended March 31, 2010, there were no significant changes to the Company's critical accounting policies previously disclosed in Form 10-K for the year ended December 31, 2009.

The Company's galvanizing plants offer a broad line of services including centrifuge galvanizing for small threaded products, sandblasting, chromate quenching, polymeric coatings, and proprietary INFRASHIELDSM Coating Application Systems for polyurethane protective linings and coatings over galvanized surfaces. The Company's mechanical and chemical engineers provide customized assistance with initial fabrication design, project estimates and steel chemistry selection.

The Company's galvanizing and coating operations are composed of eleven facilities located in Colorado, Kentucky, Missouri, Ohio, Oklahoma, Tennessee, Texas and West Virginia. The West Virginia facility began operating in the second quarter, 2009. These facilities operate galvanizing kettles ranging in length from 16 feet to 62 feet, and have lifting capacities ranging from 12,000 pounds to 40,000 pounds.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level. In 2009, the Company galvanized steel products for approximately 1,700 customers nationwide.

All of the Company's sales are generated for customers whose end markets are principally in the United States. The Company markets its galvanizing and coating services directly to its customers and does not utilize agents or distributors. Although hot dip galvanizing is considered a mature service industry, the Company is actively engaged in developing new markets through participation in industry trade shows, metals trade associations and presentation of technical seminars by its national marketing service team.

Hot dip galvanizing provides metals corrosion protection for many product applications used in commercial, construction and industrial markets. The Company's galvanizing can be found in almost every major application and industry that requires corrosion protection where iron or steel is used, including the following end user markets:

- highway and transportation
- power transmission and distribution
- wireless and telecommunications
  - utilities
- petrochemical processing
  - industrial grating
- infrastructure including buildings, airports, bridges and power generation
  - wastewater treatment
- fresh water storage and transportation





- pulp and paper
- pipe and tube
- food processing
- agricultural (irrigation systems)
- recreation (boat trailers, marine docks, stadium scaffolds)
  - bridge and pedestrian handrail
  - commercial and residential lighting poles
- original equipment manufactured products, including general fabrication.

As a value-added service provider, the Company's revenues are directly influenced by the level of economic activity in the various end markets that it serves. Economic activity in those markets that results in the expansion and/or upgrading of physical facilities (i.e., construction) may involve a time-lag factor of several months before translating into a demand for galvanizing fabricated components. Despite the inherent seasonality associated with large project construction work, the Company maintains a relatively stable revenue stream throughout the year by offering fabricators, large and small, reliable and rapid turn-around service.

The Company records revenues when the galvanizing processes and inspection utilizing industry-specified standards are completed. The Company generates all of its operating cash from such revenues, and maintains a line of credit secured by the underlying accounts receivable and zinc inventory to facilitate working capital needs.

Each of the Company's galvanizing plants operate in a highly competitive environment underscored by pricing pressures, primarily from other public and privately-owned galvanizers and alternative forms of corrosion protection, such as paint. The Company's long-term response to these challenges has been a sustained strategy focusing on providing a reliable quality of galvanizing to standard industry technical specifications and rapid turn-around time on every project, large and small. Key to the success of this strategy is the Company's continuing commitment and long-term record of reinvesting earnings to upgrade its galvanizing facilities and provide technical innovations to improve production efficiencies; and to construct new facilities when market conditions present opportunities for growth. The Company is addressing long-term opportunities to expand its galvanizing and coatings business through programs to increase industry awareness of the proven, unique benefits of galvanizing for metals corrosion protection. Each of the Company's galvanizing plants is linked to a centralized system involving sales order entry, facility maintenance and operating procedures, quality assurance, purchasing and credit and accounting that enable the plant to focus on providing galvanizing and coating services in the most cost-effective manner.

The principal raw materials essential to the Company's galvanizing and coating operations are zinc and various chemicals which are normally available for purchase in the open market.

#### Key Indicators

Key industries which historically have provided the Company some indication of the potential demand for galvanizing in the near-term, (i.e., primarily within a year) include highway and transportation, power transmission and distribution, telecommunications and the level of quoting activity for regional metal fabricators. In general, growth in the commercial/industrial sectors of the economy generates new construction and capital spending which ultimately impacts the demand for galvanizing.

Key operating measures utilized by the Company include new orders, zinc inventory, tons of steel galvanized, revenue, pounds and labor costs per hour, zinc usage related to tonnage galvanized, and lost-time safety performance. These measures are reported and analyzed on various cycles, including daily, weekly and monthly.



The Company utilizes a number of key financial measures to evaluate the operations at each of its galvanizing plants, to identify trends and variables impacting operating productivity and current and future business results, which include: return on capital employed, sales, gross profit, fixed and variable costs, selling and general administrative expenses, operating cash flows, capital expenditures, interest expense, and a number of ratios such as profit from operations and accounts receivable turnover. These measures are reviewed by the Company's operating and executive management each month, or more frequently, and compared to prior periods, the current business plan and to standard performance criteria, as applicable.

## RESULTS OF OPERATIONS

The following table shows the Company's results of operations for the three-month periods ended March 31, 2010 and 2009:

	(Dollars in thousands)					
	Three Months Ended March 31,			2009		
	2010					
	Amount	% of		Amount	% of	
		Sales			Sales	
Sales	\$ 16,315	100.0	%	\$ 20,609	100.0	%
Cost of sales excluding depreciation and amortization	10,491	64.3	%	12,083	58.6	%
Selling, general and administrative expenses	2,705	16.6	%	2,693	13.1	%
Depreciation and amortization	967	5.9	%	887	4.3	%
Total costs and expenses	14,163	86.8	%	15,663	76.0	%
Gain from insurance proceeds	717	4.4	%	—	0.0	%
Operating income	2,869	17.6	%	4,946	24.0	%
Interest expense	(298)	-1.8	%	—	0.0	%
Interest income	8	0.0	%	13	0.2	%
Income before income taxes	2,579	15.8	%	4,959	24.2	%
Income tax expense	954	5.8	%	1,498	7.3	%
Net income	\$ 1,625	10.0	%	\$ 3,461	16.9	%

## 2010 COMPARED TO 2009

Sales. Sales for the first quarter ended March 31, 2010 were 21% lower than the prior year first quarter. In 2010, lower overall hot dip galvanizing demand adversely impacted the Company's operations. Total processing volumes for the first quarter of 2010 decreased 29% below the first quarter of 2009. Unusually high snowfall amounts occurring in January and February in the Central Midwest also impacted production. Approximately a third of the decline in volume is due to the temporary idling of the St. Louis plant due to a facility fire that occurred in November 2009. The St. Louis plant remained idle during the entire first quarter of 2010. The average selling price for the first quarter of 2010 was 12% higher than the average selling price for the same period in 2009. Although the Company experienced competitive pressure on selling prices due to weak market conditions, sales prices did increase over the prior year first quarter related to increases in zinc costs. The average cash LME cost for zinc was \$0.53 per pound in

the first quarter of 2009 compared to an average cash LME cost of \$1.04 per pound in the first quarter of 2010, an increase of 96%.

Cost of Sales. Cost of sales decreased overall from 2009 to 2010 by 13% due to the decrease in volumes of 29%. Unit costs increased primarily due to higher zinc market prices in 2010 compared to 2009. Unit labor costs increased primarily due to normal increases in compensation rates. Other overhead expenses, including repairs and maintenance and supplies, for the first quarter of 2010 were lower compared to the prior year due to lower spending.

**Selling, General and Administrative (SG&A) Expenses.** SG&A expenses were comparable to the prior year first quarter. Legal and professional fees of approximately \$0.3 million were incurred during the first quarter 2010 due to merger agreement related expenses, but other corporate legal fees were lower than the prior year first quarter 2009 by approximately the same amount.

**Gain from insurance proceeds.** The Company recorded a gain in the first quarter 2010 of \$0.4 million, net of tax, from insurance proceeds related to the claim for zinc inventory losses from the St. Louis plant fire in November 2009.

**Operating Income.** Operating income decreased \$2.1 million from the first three months of 2009 to the first three months of 2010. Decreases in operating income result from the factors explained above.

**Income Taxes.** The Company's effective income tax rates for the first quarter of 2010 and 2009 were 37.0% and 30.2%, respectively. The effective tax rates differ from the federal statutory rate primarily due to state income taxes and minor adjustments to previous tax estimates.

**Net Income.** For the first quarter of 2010, the Company reported net income of \$1.6 million compared to net income of \$3.5 million for the first quarter of 2009. Decreases in net income result from the factors explained above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations and borrowings under credit facilities have been adequate to fund its current facilities' working capital and capital spending requirements and is expected to be sufficient to fund the recurring level of operations for the next twelve months. During 2010 and 2009, operating cash flow has been the primary source of liquidity. The Company monitors working capital and planned capital spending to assess liquidity and minimize cyclical cash flow.

On June 25, 2009, the Company announced that its Board of Directors had approved a new capital and funding structure designed to facilitate the Company's growth strategy. The Company's new capital and funding structure consists of a combination of an expanded bank facility (see Note 5) and a capital raise through a private placement offering of subordinated notes and warrants (see Note 8). The private placement transaction for \$7.3 million was completed August 21, 2009.

Cash from operations increased \$0.7 million in the first three months of 2010 versus the first three months of 2009. The proceeds from insurance created a favorable variance in changes in other assets. In addition, changes in accounts receivable and changes in deferred taxes had favorable variances. These favorable variances were offset in part by unfavorable changes in accounts payable, accrued taxes and other accrued liabilities in addition to lower net income in 2010.

Capital expenditures for the first three months of 2010 were \$0.4 million. Expenditures in the first three months of 2009 were \$1.8 million. Expenditures in the first quarter 2009 included the construction of the new facility in Benwood, West Virginia and upgrading facilities at the Hurst, Texas plant.

The Company has various commitments primarily related to vehicle and equipment operating leases, facilities operating leases, and zinc purchase commitments. The Company's off-balance sheet contractual obligations at March 31, 2010, consist of \$1.3 million for long-term operating leases for vehicles, office space, office equipment, galvanizing facilities and galvanizing equipment. In addition, at March 31, 2010 the Company has approximately \$1.8 million in outstanding purchase commitments for various machinery, equipment and building improvements and \$0.6 million in outstanding commitments for other operating obligations. The various leases for galvanizing facilities, including option renewals, expire from 2010 to 2017. The vehicle leases expire annually on various schedules

through 2012. NAGC periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc can be for up to one year.

## ENVIRONMENTAL MATTERS

The Company's facilities are subject to extensive environmental legislation and regulations affecting their operations and the discharge of wastes. The cost of compliance with such regulations in the first three months of 2010 and 2009 was approximately \$0.5 million and \$0.4 million, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was one of approximately 60 potentially responsible parties under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The IEPA notice includes NAGC as one of the organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the potentially responsible parties or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 potentially responsible parties is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued.

In September 2008, the United States Environmental Protection Agency (the "EPA") notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas.

This matter pertains to galvanizing facilities of a Company subsidiary and its disposal of waste, which was handled by their supplier in the early 1980's. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and accepted the EPA's offer before the deadline of December 30, 2008. The settlement amount of \$112,145 was paid in February 2010.

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

North American Galvanizing & Coatings, Inc. and its subsidiary are parties to a number of other lawsuits and environmental matters which are not discussed herein. Management of the Company, based upon their analysis of known facts and circumstances and reports from legal counsel, does not believe that any such matter will have a material adverse effect on the results of operations, financial conditions or cash flows of the Company.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's operations include managing market risks related to changes in interest rates and zinc commodity prices.

**Interest Rate Risk.** Changing interest rates will affect interest paid on the Company's variable rate debt. The Company does not have any variable rate debt as of March 31, 2010.

**Zinc Price Risk.** NAGC periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its zinc requirements for its hot dip galvanizing operations. Commitments for the future delivery of zinc, which can be for up to one (1) year, reflect rates quoted on the London Metals Exchange. At March 31, 2010, the Company did not have any fixed price commitments for the procurement of zinc.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company recognizes that hedging instruments may be effective in minimizing the impact of zinc price fluctuations. The Company's current zinc forward purchase commitments are considered derivatives, but the Company has elected to account for these purchase commitments as normal purchases.

#### Item 4. Controls and Procedures

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

The Company's certifying officers have indicated that there were no significant changes in internal controls over financial reporting that have occurred during the fiscal quarter ended March 31, 2010 that materially affected, or were reasonably likely to materially affect, internal controls over financial reporting.

## Part II

## Other Information

#### Item 1. Legal Proceedings.

On April 13, 2010, Morris Akerman, a purported stockholder of the Company, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders of the Company, captioned *Akerman v. North American Galvanizing & Coatings, Inc., et al.*, C.A. No. 5407-CC. On April 16, 2010, Gerald Beddow, a purported stockholder of the Company, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders of the Company, captioned *Beddow v. North American Galvanizing & Coatings, Inc., et al.*, C.A. No. 5420-VCL. On April 16, 2010, Barbara Gibbs, a purported stockholder of the Company, filed a putative class action complaint in the County Court for Rogers County, Oklahoma on behalf of herself and all other similarly situated stockholders of the Company, captioned *Gibbs v. North American Galvanizing & Coatings, Inc., et al.*, Case No. CJ-2010-308. On April 20, 2010, Richard Devivo, a purported stockholder of the Company, filed a putative class action complaint in the District Court for Tulsa County, Oklahoma on behalf of himself and all other similarly situated stockholders of the Company, captioned *Devivo v. Morrow, et al.*, Case No. 2010-02551.

The stockholder complaints purport to assert claims against the Company, the board of directors of the Company, AZZ and Purchaser alleging breaches of fiduciary duty and aiding and abetting breaches of fiduciary duty in connection with the Offer to Purchase. Among other things, the complaints allege that the Company is being sold at an unfair price. Among other relief, plaintiffs in each of these actions seek an order enjoining defendants from proceeding with the Merger Agreement, as well as rescissionary damages, restitution, and attorneys' fees. Discovery has not commenced, and no trial has been set in any of these actions.



While the lawsuits are in the preliminary stages, the Company believes that they are entirely without merit and intends to defend against them vigorously.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency (“IEPA”) that it was one of approximately 60 potentially responsible parties under the Comprehensive Environmental Response, Compensation, and Liability Information System (“CERCLIS”) in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The IEPA notice includes NAGC as one of the organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the potentially responsible parties or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 potentially responsible parties is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued.

In September 2008, the United States Environmental Protection Agency (the “EPA”) notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas. This matter pertains to galvanizing facilities of a Company subsidiary and its disposal of waste, which was handled by their supplier in the early 1980’s. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and accepted the EPA’s offer before the deadline of December 30, 2008. The settlement amount of \$112,145 was paid in February 2010.

#### Item 1A. Risk Factors.

There are no material changes from risk factors as previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, except that we have added the following risk factors:

##### Risks Related to the Proposed Tender Offer and Merger

The pending Tender Offer and Merger and/or the delay or failure to complete the pending Tender Offer and Merger could materially and adversely affect our business, results of operations and stock price.

On March 31, 2010, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with AZZ incorporated, a Texas corporation (“AZZ”), and Big Kettle Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of AZZ (“Purchaser”). Pursuant to the Merger Agreement, and upon the terms and subject to the conditions described therein, Purchaser has agreed to commence a tender offer (the “Offer”) for all of the Company’s outstanding shares of common stock, par value \$0.10 per share (the “Company Common Stock”), at a purchase price of \$7.50 per share in cash, without interest (less any applicable withholding taxes) (as may be increased pursuant to the Merger Agreement, the “Offer Price”). Purchaser has agreed to commence the Offer promptly after April 30, 2010, but no later than May 7, 2010, and the Offer shall expire on the 20th business day from and including the commencement date unless extended in accordance with the terms of the Merger Agreement and applicable law. Upon successful completion of the Offer, and subject to the terms and conditions of the Merger Agreement, Purchaser will be merged with and into the Company, with the Company surviving as a wholly owned subsidiary of AZZ (the “Merger”).

The announcement and pendency of the Tender Offer and Merger could cause disruptions in and create uncertainty surrounding our business, including affecting our relationships with our customers, vendors, and employees, which could materially and adversely affect our business and results of operations. In particular, we could lose important personnel as a result of the departure of employees who decide to pursue other opportunities in light of the Offer and the Merger. We could potentially lose customers or suppliers, or customer orders could be delayed or decreased. In addition, we have diverted, and will continue to divert, significant management and employee attention and resources in an effort to complete the Offer and the Merger, which could materially and adversely affect our business and results of operations. A delay in the consummation of the Offer and the Merger may exacerbate the occurrence of these

events.

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The obligation of AZZ and Purchaser to consummate the Offer and the Merger is subject to customary conditions, including the requirement that a requisite number of outstanding shares of our common stock having been validly tendered and not withdrawn in the Offer. We cannot assure you that these conditions will be met or waived or that the Offer and the Merger will close in the expected time frame or at all. If the Offer and Merger, or a similar transaction, are not completed, the share price of our common stock may change to the extent that the current market price of our common stock reflects an assumption that a transaction will be completed. We will have incurred significant risks and costs if a transaction does not close, including the diversion of management and employee attention and resources, potential employee attrition and the potential disruptive effect on business and customer relationships.

In connection with the Proposed Tender Offer and Merger, four lawsuits have been filed against us and our board of directors.

Following the April 1, 2010 announcement of our entry into the Merger Agreement, four purported stockholders of the Company filed four putative class action complaints, each on behalf of themselves and all other similarly situated stockholders of the Company, purporting to assert claims against the Company, the board of directors of the Company, AZZ and Purchaser alleging breaches of fiduciary duty and aiding and abetting breaches of fiduciary duty in connection with the Offer to Purchase. Among other things, the complaints allege that the Company is being sold at an unfair price. Among other relief, plaintiffs in each of these actions seek an order enjoining defendants from proceeding with the Merger Agreement, as well as rescissory damages, restitution, and attorneys' fees. These cases could result in substantial costs, in an injunction prohibiting the Offer and the Merger and in a diversion of management and employee attention and resources, all of which could materially and adversely affect our business and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – Not applicable.

Item 3. Defaults Upon Senior Securities – Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders – Not applicable.

Item 5. Other Information – Not applicable.

Item 6. Exhibits

#### No. Description

- 3.1 Restated Certificate of Incorporation of Kinark Corporation, as amended on June 6, 1996 (incorporated by reference to Exhibit 3.1 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3, Registration No. 333-4937, filed with the Commission on June 7, 1996).
- 3.1.1 Certificate of Amendment of the Restated Certificate of Incorporation, as Amended of North American Galvanizing & Coatings, Inc. (incorporated by reference to the Company's Form 8-K filed with the Commission on January 27, 2010).
- 3.1.2 Certificate of Amendment of Restated Certificate of Incorporation, as amended of North American Galvanizing & Coatings, Inc., dated April 2, 2009.

- 3.1.3 Certificate of Amendment of Restated Certificate of Incorporation, as amended, of North American Galvanizing & Coatings, Inc., dated January 12, 2010 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the Commission on January 27, 2010).
- 3.2 Amended and Restated Bylaws of Kinark Corporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated March 31, 1996).
- 10.1 Credit Agreement, dated July 17, 2009, between North American Galvanizing & Coatings, Inc., a Delaware corporation, and Wells Fargo Bank, N.A., a national banking association. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated June 30, 2009).
- 10.2 2004 Incentive Stock Plan, as amended (incorporated by reference to the Company's Form 8-K filed with the Commission on October 3, 2006).
- 10.2.1 Form of Stock Option Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on March 18, 2005).
- 10.2.2 Schedule A to Stock Option Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on March 18, 2005).
- 10.2.3 2009 Incentive Stock Plan, as amended (incorporated by reference to the Company's Form 8-K filed with the Commission on January 22, 2010).
- 10.4 Executive Employment Agreement dated as of April 1, 2007, between North American Galvanizing & Coatings, Inc. and Ronald J. Evans (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the Commission on February 23, 2010).
- 10.5 First Amendment to Executive Employment Agreement dated as of February 18, 2010, between North American Galvanizing & Coatings, Inc. and Ronald J. Evans (incorporated by reference to Exhibit 10.5 to the Company's Form 8-K filed with the Commission on February 23, 2010).
- 10.6 Form of Indemnification Agreement between the Company and each of its directors (incorporated by reference to Exhibit 10.7 to the Company's Form 10-K/A filed with the Commission on April 30, 2010).
- 10.7 Agreement and Plan of Merger, dated as of March 31, 2010, by and among AZZ incorporated, Big Kettle Merger Sub, Inc. and North American Galvanizing & Coatings, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed with the Commission on April 5, 2010).
- 10.8 Schedule of related parties of the Company subscribed to the subordinated debt offering for the amounts listed (incorporated by reference to Exhibit 10.4.1 to the Company's Form 10-K for its fiscal year ended December 31, 2009).
- 10.9 Form of Subordinated Note (incorporated by reference to Exhibit 10.5.1 to the Company's Form 10-K for its fiscal year ended December 31, 2009).
- 10.10 Form of Warrant (incorporated by reference to Exhibit 10.6.1 to the Company's Form 10-K for its fiscal year ended December 31, 2009).



10.11 "Pay to Stay" Program Letter Agreement between the Company and Beth B. Pulley (incorporated by reference to Exhibit 10.12 to the Company's Form 10-K/A filed with the Commission on April 30, 2010).

15\* Awareness Letter of Deloitte & Touche LLP.

31.1\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32\* Certifications pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed Herewith.

### SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
(Registrant)

By: /s/ Beth B. Pulley  
Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: April 30, 2010

