AMERON INTERNATIONAL CORP
Form 10-Q
July 08, 2011

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 29, 2011
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number 1-9102

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

Delaware	77-0100596
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(626) 683-4000
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of outstanding shares of Common Stock, $2.50 par value, was 9,069,126 on June 30, 2011. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

FORM 10-Q
For the Quarter Ended May 29, 2011
Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended May 29, 2011	Three Months Ended May 30, 2010	Six Months Ended May 29, 2011	Six Months Ended May 30, 2010
Sales	$134,726	$136,544	$244,545	$245,562
Cost of sales	(109,247)	(101,213)	(198,721)	(180,785)
Gross profit	25,479	35,331	45,824	64,777
Selling, general and administrative expenses	(27,826)	(24,138)	(53,606)	(51,400)
Other income, net	3,980	969	4,250	1,511
Income/(loss) before interest, income taxes and equity in loss of affiliate	1,633	12,162	(3,532)	14,888
Interest expense, net	(273)	(305)	(618)	(412)
Income/(loss) before income taxes and equity in loss of affiliate	1,360	11,857	(4,150)	14,476
(Provision)/benefit for income taxes	(371)	(1,899)	810	(2,659)
Income/(loss) before equity in loss of affiliate	989	9,958	(3,340)	11,817
Equity in loss of affiliate, net of taxes	—	(409)	—	(1,185)
Net income/(loss)	$989	$9,549	$(3,340)	$10,632
Net income/(loss) per share allocated to Common Stock (see Note 7)				
Basic	$.11	$1.03	$(.37)	$1.15
Diluted	$.11	$1.03	$(.37)	$1.15
Weighted-average shares (basic)	9,056,284	9,205,970	9,127,807	9,191,676
Weighted-average shares (diluted)	9,066,207	9,218,234	9,127,807	9,209,129
Cash dividends per share	$.30	$.30	$.60	$.60

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

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - ASSETS (UNAUDITED)

(Dollars in thousands)	May 29, 2011	November 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$169,462	$ 236,737
Receivables, less allowances of $3,815 in 2011 and $3,848 in 2010	139,394	129,855
Inventories	84,781	69,381
Deferred income taxes	23,425	22,441
Prepaid expenses and other current assets	11,730	10,862
Total current assets	428,792	469,276
Investment in affiliate	3,784	3,784
Property, plant and equipment		
Land	49,050	46,132
Buildings	104,660	103,438
Machinery and equipment	385,854	371,153
Construction in progress	34,207	31,048
Total property, plant and equipment at cost	573,771	551,771
Accumulated depreciation	(325,185)	(307,573)
Total property, plant and equipment, net	248,586	244,198
Deferred income taxes	11,289	11,289
Goodwill and intangible assets, net of accumulated amortization of $1,322 in 2011 and $1,293 in 2010	2,055	2,061
Other assets	44,667	50,961
Total assets	$739,173	$ 781,569

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

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - LIABILITIES AND STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)	May 29, 2011	November 30, 2010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$8,252	$ 7,724
Trade payables	47,045	49,881
Accrued liabilities	57,443	64,533
Income taxes payable	1,125	24,682
Total current liabilities	113,865	146,820
Long-term debt, less current portion	23,952	23,424
Deferred income taxes	2,849	2,691
Other long-term liabilities	102,748	100,667
Total liabilities	243,414	273,602
Commitments and contingencies		
Stockholders' equity		
Common Stock, par value $2.50 per share, authorized 24,000,000 shares, outstanding 9,070,912 shares in 2011 and 9,249,105 shares in 2010	30,144	30,047
Additional paid-in capital	61,313	60,986
Retained earnings	498,788	507,625
Accumulated other comprehensive loss	(22,188)	(33,663)
Treasury stock (2,986,730 shares in 2011 and 2,769,637 shares in 2010)	(72,298)	(57,028)
Total stockholders' equity	495,759	507,967
Total liabilities and stockholders' equity	$739,173	$ 781,569

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

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars In thousands)	Six Months Ended May 29, 2011	Six Months Ended May 30, 2010
OPERATING ACTIVITIES		
Net (loss)/income	$(3,340)	$10,632
Adjustments to reconcile net (loss)/income to net cash used by operating activities:		
Depreciation	14,071	12,714
Amortization	19	17
Loss from affiliate	—	1,285
Loss/(gain) from sale of property, plant and equipment	36	(11)
Stock compensation expense	1,228	1,433
Changes in operating assets and liabilities:		
Receivables, net	(6,925)	(5,394)
Inventories	(11,987)	(9,356)
Prepaid expenses and other current assets	(601)	(1,339)
Other assets	6,349	64
Trade payables	(4,356)	2,377
Accrued liabilities and income taxes payable	(32,081)	(8,226)
Other long-term liabilities and deferred income taxes	26	(8,325)
Net cash used by operating activities	(37,561)	(4,129)
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	156	180
Additions to property, plant and equipment	(13,932)	(16,756)
Loan to affiliate, net	—	1,500
Net cash used in investing activities	(13,776)	(15,076)
FINANCING ACTIVITIES		
Issuance of debt	—	1,150
Dividends on Common Stock	(5,485)	(5,557)
Issuance of Common Stock	41	306
Purchase of treasury stock	(15,277)	(1,081)
Net cash used in financing activities	(20,721)	(5,182)
Effect of exchange rate changes on cash and cash equivalents	4,783	(3,376)
Net change in cash and cash equivalents	(67,275)	(27,763)
Cash and cash equivalents at beginning of period	236,737	181,114
Cash and cash equivalents at end of period	$169,462	$153,351

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

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Consolidated financial statements for the interim periods included herein are unaudited; however, such financial statements contain all adjustments, including normal recurring accruals, which, in the opinion of Management, are necessary for the fair statement of the consolidated financial position of Ameron International Corporation and all subsidiaries (the "Company" or "Ameron" or the "Registrant") as of May 29, 2011, and consolidated results of operations for the three and six months ended May 29, 2011 and cash flows for the six months ended May 29, 2011. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

For accounting consistency, the quarter typically ends on the Sunday closest to the end of the relevant calendar month. The Company’s fiscal year ends on November 30, regardless of the day of the week. Each quarter consists of approximately 13 weeks, but the number of days per quarter can vary from period to period. The quarters ended May 29, 2011 and May 30, 2010 each consisted of 91 days. The six months ended May 29, 2011 and May 30, 2010 consisted of 180 and 181 days, respectively.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended November 30, 2010 ("2010 Annual Report").

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") required new disclosures about fair value of financial instruments for interim and annual reporting periods. These new disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements of Level 3 financial instruments, which are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010. Except for the Level 3 financial instruments disclosures, the Company adopted the guidance December 1, 2010. Adoption did not have a material effect on the Company's consolidated financial statements. The Company will adopt the Level 3 financial instruments guidance beginning December 1, 2011, and adoption is not expected to have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB amended fair value measurement and disclosure guidance to achieve convergence with International Financial Reporting Standards ("IFRS"). The amended guidance clarified existing fair value measurement guidance, revised certain measurement guidance and expanded the disclosure requirements concerning Level 3 fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011. Adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

NOTE 3 - RECEIVABLES

The Company's receivables consisted of the following:

(In thousands)	May 29, 2011	November 30, 2010
Trade	$122,102	$ 119,954
Affiliates	2,951	1,231

Other	18,156	12,518
Allowances	(3,815)	(3,848)
	$139,394	$ 129,855

Trade receivables included unbilled receivables related to percentage-of-completion revenue recognition of $31,313,000 and $25,054,000 at May 29, 2011 and November 30, 2010, respectively.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 4 - INVENTORIES

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

(In thousands)	May 29, 2011	November 30, 2010
Finished products	$35,699	$ 35,332
Materials and supplies	34,641	25,053
Products in process	14,441	8,996
	$84,781	$ 69,381

NOTE 5 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information included the following:

	Six Months Ended	
(In thousands)	May 29, 2011	May 30, 2010
Interest paid	$934	$572
Income taxes paid, net	22,520	4,878

NOTE 6 - AFFILIATES

Investments in Ameron Saudi Arabia, Ltd. ("ASAL") and Bondstrand, Ltd. ("BL") are accounted for under the cost method due to Management's current assessment of the Company's influence over these affiliates. Earnings related to dividends from ASAL and BL, if any, are included in other income, net. The Company received dividends of $2,765,000 from affiliates in the first half of 2011, and no dividends were received in the first half of 2010.

In the fourth quarter of 2010, the Company completed the sale of its 50% ownership interest in TAMCO. In the three and six months ended May 30, 2010, the Company recorded equity in loss of TAMCO, net of taxes, of $409,000 and $1,185,000 respectively.

NOTE 7 - NET INCOME/(LOSS) PER SHARE

Basic and diluted net income/(loss) per share are computed using the two-class method which allocates earnings to both Common Stock and participating securities. Under the two-class method, unvested restricted Common Stock with non-forfeitable rights to dividends are considered participating securities. Dividends from such participating securities are excluded from net income/(loss) allocated to Common Stock for purposes of the two-class method calculation.

Basic shares are computed on the basis of the weighted-average number of shares of Common Stock outstanding during the periods presented. Diluted shares are computed on the basis of the weighted-average number of shares of Common Stock outstanding plus the effect of outstanding stock options and restricted stock using the treasury stock method. Total shares of 35,602 and 79,847 shares, related to stock options and restricted stock, are excluded from the below calculation for the quarter and six months ended May 29, 2011, respectively, as inclusion would be anti-dilutive. Total shares of 19,286 shares, related to stock options and restricted stock, are excluded from the below calculation for the quarter and six months ended May 30, 2010, respectively, as inclusion would be anti-dilutive.

8

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Following is a reconciliation of net income/(loss) allocated to Common Stock, using the two-class method, and the weighted-average number of shares used in the computation of basic and diluted net income/(loss) per share allocated to Common Stock:

(In thousands, except per share data)	Three Months Ended May 29, 2011	Three Months Ended May 30, 2010	Six Months Ended May 29, 2011	Six Months Ended May 30, 2010
Numerator for income/(loss) per share:				
Net income/(loss)	$989	$9,549	$(3,340)	$10,632
Less: income allocated to participating securities	(6)	(45)	(19)	(50)
Net income/(loss) allocated to Common Stock	983	9,504	(3,359)	10,582
Denominator for basic income/(loss) per share:				
Weighted-average shares outstanding, basic	9,056,284	9,205,970	9,127,807	9,191,676
Denominator for diluted income/(loss) per share:				
Weighted-average shares outstanding, basic	9,056,284	9,205,970	9,127,807	9,191,676
Dilutive effect of stock options and restricted stock	9,923	12,264	—	17,453
Weighted-average shares outstanding, diluted	9,066,207	9,218,234	9,127,807	9,209,129
Net income/(loss) per share allocated to Common Stock				
Basic	$.11	$1.03	$(.37)	$1.15
Diluted	$.11	$1.03	$(.37)	$1.15

NOTE 8 - COMPREHENSIVE INCOME

Comprehensive income was as follows:

(In thousands)	Three Months Ended May 29, 2011	Three Months Ended May 30, 2010	Six Months Ended May 29, 2011	Six Months Ended May 30, 2010
Net income/(loss)	$989	$9,549	$(3,340)	$10,632
Foreign currency translation adjustment	6,509	(1,895)	11,475	(6,613)
Comprehensive income	$7,498	$7,654	$8,135	$4,019

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 9 - DEBT

Domestically, as of May 29, 2011, the Company maintained a $100,000,000 revolving credit facility with six banks (the "Revolver"). At May 29, 2011, $17,212,000 of the Revolver was utilized for standby letters of credit; therefore, $82,788,000 was available. Under the Revolver, the Company may, at its option, borrow at floating interest rates (at a rate of LIBOR plus a spread ranging from 2.75% to 3.75% based on the Company's financial condition and performance) or utilize for letters of credit, at any time until August 2012, when all borrowings under the Revolver must be repaid and letters of credit canceled.

Foreign subsidiaries also maintain unsecured revolving credit facilities with banks. Foreign subsidiaries may borrow in various currencies, at interest rates based upon specified margins over money market rates. Existing foreign credit facilities permit borrowings up to $29,107,000. At May 29, 2011, there were no borrowings under these facilities.

The Company intends for short-term borrowing, if any, under bank facilities utilized by the Company and its foreign subsidiaries to be refinanced on a long-term basis via the Revolver.

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

(In thousands)	May 29, 2011	November 30, 2010
Fixed-rate notes, at 4.25%, payable in Singapore dollars, in annual principal installments of $8,252	$16,504	$ 15,448
Variable-rate industrial development bonds:		
Payable in 2016 (.40% at May 29, 2011)	7,200	7,200
Payable in 2021 (.40% at May 29, 2011)	8,500	8,500
	32,204	31,148
Less current portion	(8,252)	(7,724)
	$23,952	$ 23,424

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, capital expenditures, guarantees, and financial covenants. The Company is required to maintain consolidated net worth of $375,500,000 plus 50% of net income and 75% of proceeds from any equity issued after November 30, 2008. The Company's consolidated net worth exceeded the covenant amount by $122,700,000 as of May 29, 2011. 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 2.50 times. At May 29, 2011, the Company maintained a consolidated leverage ratio of .87 times EBITDA. Lending agreements require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. At May 29, 2011, qualifying tangible assets equaled 5.80 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA and rental expense less certain cash taxes must be at least a minimum amount times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. The minimum fixed charge coverage ratio is 1.10 only through August 28, 2011, 1.35 only for the year ended November 30, 2011 and 1.50 thereafter. At May 29, 2011, the Company maintained such a fixed charge coverage ratio of 1.24 times. Under the most restrictive provisions of the Company's lending agreements, $3,174,000 of retained earnings were not restricted, at May 29, 2011, as to the declaration of cash dividends or the repurchase of Company stock. In addition, the Company has consents from its lenders allowing the Company to purchase up to $34,900,000 of the Company's Common Stock as of May 29, 2011. At May 29, 2011, the Company was in compliance with all financial covenants.

The Revolver and the 4.25% term notes are collateralized by substantially all of the Company's assets. The industrial development bonds are supported by standby letters of credit that are issued under the Revolver. The interest rate on the industrial development bonds is based on the Securities Industry and Financial Markets Association (“SIFMA”) index plus a spread of approximately .20%. 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.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Estimated fair value of the Company's debt is prepared in accordance with the FASB's fair value disclosure requirements. These requirements establish an enhanced framework for measuring the fair value of financial instruments including a disclosure hierarchy based on the inputs used to measure fair value. The estimated fair value amounts were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required to develop the estimated fair value, thus the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

(In thousands)	Carrying Amount	Fair Value
May 29, 2011		
Fixed-rate, long-term debt	$16,504	$16,946
Variable-rate, long-term debt	15,700	15,700
November 30, 2010		
Fixed-rate, long-term debt	$15,448	$16,445
Variable-rate, long-term debt	15,700	15,700

The Company uses a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile to determine fair value. The estimated fair value of the Company's fixed-rate, long-term debt is based on U.S. government notes at the respective date plus an estimated spread for similar securities with similar credit risks and remaining maturities.

NOTE 10 - SEGMENT INFORMATION

The Company has determined that it has four operating and three reportable segments: Fiberglass-Composite Pipe, Water Transmission and Infrastructure Products. Infrastructure Products consists of two operating segments, the Pole Products and Hawaii Divisions, which are aggregated. Each of the segments has a dedicated management team and is managed separately, primarily because of differences in products. Historically, TAMCO was not included in any of these segments. The Company's Chief Operating Decision Maker is the Chief Executive Officer who primarily reviews sales and income before interest, income taxes and equity in earnings of affiliate for each operating segment in making decisions about allocating resources and assessing performance. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Costs of certain shared services (e.g., costs of Company-wide insurance programs or benefit plans) are allocated to the operating segments based on revenue, wages or net assets employed. Other items not related to current operations or of an unusual nature are not allocated to the reportable segments, such as adjustments to reflect inventory balances of certain steel inventories under the last-in, first-out (“LIFO”) method, certain unusual legal costs and expenses, interest expense and income taxes.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Following is information related to each reportable segment included in, and in a manner consistent with, internal management reports:

(In thousands)	Three Months Ended May 29, 2011	Three Months Ended May 30, 2010	Six Months Ended May 29, 2011	Six Months Ended May 30, 2010
Sales				
Fiberglass-Composite Pipe	$66,926	$64,668	$124,742	$119,174
Water Transmission	38,013	41,288	64,014	67,100
Infrastructure Products	29,787	30,612	55,793	59,318
Eliminations	—	(24)	(4)	(30)
Total Sales	$134,726	$136,544	$244,545	$245,562
Income/(Loss) Before Interest, Income Taxes and Equity in Loss of Affiliate				
Fiberglass-Composite Pipe	$14,329	$17,779	$24,064	$31,830
Water Transmission	(2,337)	252	(7,976)	(1,630)
Infrastructure Products	724	2,370	783	3,584
Corporate and unallocated	(11,083)	(8,239)	(20,403)	(18,896)
Total Income/(Loss) Before Interest, Income Taxes and Equity in Loss of Affiliate	$1,633	$12,162	$(3,532)	$14,888

(In thousands)	May 29, 2011	November 30, 2010
Assets		
Fiberglass-Composite Pipe	$293,302	$ 335,135
Water Transmission	202,746	182,576
Infrastructure Products	94,210	92,729
Corporate and unallocated	296,221	343,070
Eliminations	(147,306)	(171,941)
Total Assets	$739,173	$ 781,569

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In 2004, Sable Offshore Energy Inc. ("Sable"), as agent for certain owners of the Sable Offshore Energy Project ("Project"), brought an action against various coatings suppliers and application contractors, including the Company and its subsidiary, Ameron B.V., in the Supreme Court of Nova Scotia, Canada. Sable seeks damages allegedly sustained by it resulting from performance problems with several coating systems used on the Project, including coatings products furnished by the Company and Ameron B.V. All of the co-defendants, other than the Company, Ameron B.V. and an unaffiliated licensee of the Company, have since settled. Sable's originating notice and statement of claim alleged a claim for damages in an unspecified amount. Sable later alleged that its contractual claim for damages based upon a total coatings replacement for the Project was approximately 440,000,000 Canadian dollars. More recently, however, Sable sent the Company an alternate claim for a total of 135,500,000 Canadian dollars, which utilized a different method for calculating damages based on the costs allegedly involved in a more limited repair program. The more limited program is purportedly designed only to replace that amount of coating that plaintiffs claim is necessary to maintain the structural integrity of the Project through its anticipated final abandonment date. The Company contests any claim amount and is vigorously defending itself on the merits in this action. This matter is in discovery, and no trial date has yet been established. Based upon the information available at this time, the Company is not able to estimate the possible range of loss with respect to this case.

In 2004, BP America Production Company (“BP America”) brought an action against the Company in the 24th Judicial District Court, Parish of Jefferson, Louisiana in connection with fiberglass pipe sold by the Company for installation in four offshore platforms constructed for BP America. The plaintiff seeks damages allegedly sustained by it resulting from claimed defects in such pipe. BP America's petition as filed alleged a claim against the Company for rescission, products liability, negligence, breach of contract and warranty and for damages in an amount of not less than $20,000,000; but BP America has since reduced its claim to $12,900,000. The

Table of Contents

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

Company contests this amount. This matter is in discovery, and no trial date has yet been established. The Company intends to vigorously defend itself in this action. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to this case.

In 2010, Petroleum Polymer Company LLC ("PPC") brought an action against Ameron (Pte) Ltd. ("Ameron Pte"), an indirect subsidiary of the Company, in the Primary Court of Oman. The complaint alleged that Ameron Pte breached the terms of a purchase agreement for its supply of fiberglass pipe to PPC for use in an oil extraction project in Oman. PPC's primary allegation is that a component supplied by Ameron Pte failed during testing, resulting in a failure of a pipe system. PPC asserted damages totaling approximately $20,000,000, including alleged claims for the cost of replacing damaged pipe, recovery of penalties incurred due to the resulting delay in the project, and lost future opportunities. Ameron Pte contests any claim amount and intends to vigorously defend itself in this action. Based upon the information available to it at this time, the Company is able to neither estimate the possible range of loss with respect to this case nor the timing of substantive judicial proceedings.

The Company is a defendant in a number of asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others. As of May 29, 2011, the Company was a defendant in 20 asbestos-related cases, compared to 16 cases as of February 27, 2011. During the quarter ended May 29, 2011, there were nine new asbestos-related cases, four dismissed cases, one settled case and no judgments; expenses totaled $509,000, and there were no recoveries. The Company incurred expenses from asbestos-related lawsuits of $16,000 during the quarter ended May 30, 2010, and there were no recoveries. During the six months ended May 29, 2011, the Company incurred expenses of $514,000; and there were no recoveries. The Company incurred expenses of $64,000 and recovered $28,000 in the six months ended May 30, 2010. Based upon the information available to it at this time, the Company is not able to estimate the possible range of loss with respect to these cases.

In 2008, the Company received from the U.S. Treasury Department's Office of Foreign Assets Control (“OFAC”) a Requirement to Furnish Information regarding transactions involving certain prohibited countries, including Iran. The Company continues to cooperate fully with OFAC on this matter with the assistance of outside counsel. Based upon the information available to it at this time, the Company is not able to predict the outcome of this matter. If the Company violated governmental regulations, material fines and penalties could be imposed.

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

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

NOTE 12 - PRODUCT WARRANTIES AND GUARANTEES

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

Six Months Ended

(In thousands)	May 29, 2011	May 30, 2010
Balance, beginning of period	$3,214	$3,396
Payments	(764)	(936)
Warranties issued during the period	713	540
Balance, end of period	$3,163	$3,000

Table of Contents
13

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 13 - INCENTIVE STOCK COMPENSATION PLANS

As of May 29, 2011, the Company had outstanding grants under the following share-based compensation plans:

- 2001 Stock Incentive Plan ("2001 Plan") - The 2001 Plan was terminated in 2004, except as to the outstanding stock options and restricted stock grants. Non-employee directors were granted options under the 2001 Plan to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options have vested and terminate ten years from the date of grant. At May 29, 2011, there were 6,000 shares subject to such stock options.

- 2004 Stock Incentive Plan ("2004 Plan") - The 2004 Plan serves as the successor to the 2001 Plan and supersedes that plan. A total of 525,000 new shares of Common Stock were made available for awards to key employees and non-employee directors which may include, but are not limited to, stock options and restricted stock grants. Non-employee directors were granted options under the 2004 Plan to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options vest in equal annual installments over four years and terminate ten years from the date of grant. At May 29, 2011, there were 15,052 shares subject to such granted stock options. Key employees and non-employee directors were granted restricted stock under the 2004 Plan. Such restricted stock typically vests in equal annual installments over three years.

In addition to the above, in 2001, non-employee directors were granted options to purchase the Company's Common Stock at prices not less than 100% of market value on the date of grant. Such options vested in equal annual installments over four years and terminated ten years from the date of grant. During the six months ended May 29, 2011, 2,000 shares were issued from treasury stock upon the exercise of such stock options. At May 29, 2011, there were no shares subject to such stock options.

The Company's income before income taxes for the three months ended May 29, 2011 included compensation expense of $996,000, related to stock-based compensation arrangements, compared to $806,000 in 2010. Tax benefit related to this expense was $388,000 in 2011, compared to $314,000 in 2010. For the six months ended May 29, 2011 and May 30, 2010, compensation expenses related to stock-based compensation arrangements were $1,228,000 and $1,433,000, respectively. Tax benefits related to these expenses were and $479,000 and $559,000, respectively. There were no capitalized share-based compensation costs for the three and six months ended May 29, 2011 and May 30, 2010, respectively.

The Company recognized a tax deficiency related to stock-based compensation of $836,000 and $689,000 for the six months ended May 29, 2011 and May 30, 2010, respectively.

The following table summarizes the stock option activity in the six months ended May 29, 2011:

Options	Number of Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at November 30, 2010	23,052	$43.07		
Granted	—			