

AZZ INC
Form 10-Q
January 07, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2010

OR

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

Commission file number 1-12777
AZZ incorporated
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of incorporation or
organization)

75-0948250
(I.R.S. Employer
Identification No.)

One Museum Place, Suite 500
3100 West 7th Street
Fort Worth, Texas
(Address of principal executive offices)

76107
(Zip Code)

(817) 810-0095
Registrant's telephone number, including area code:

NONE
(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 No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

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

| | | | |
|---|---|---|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller Reporting Company <input type="checkbox"/> |
|---|---|---|---|

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 the latest practicable date.

| Title of each class: | Outstanding at November 30, 2010: |
|--|-----------------------------------|
| Common Stock, \$1.00 par value per share | 12,498,054 |

AZZ incorporated
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

| | 11/30/10 | 02/28/10 |
|---|--------------------|--------------------|
| Assets | (Unaudited) | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 6,652,973 | \$ 110,607,029 |
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$669,000 at November 30, 2010 and \$720,000 at February 28, 2010) | 52,478,486 | 39,431,918 |
| Inventories: | | |
| Raw Material | 38,528,532 | 23,356,416 |
| Work-In-Process | 13,779,766 | 11,541,710 |
| Finished Goods | 3,623,155 | 5,226,455 |
| Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts | 14,504,599 | 10,782,424 |
| Deferred Income Taxes | 7,656,522 | 5,225,379 |
| Income Tax Receivable | 6,949,465 | - |
| Insurance Receivable | 6,600,000 | - |
| Prepaid Expenses and Other | 2,344,572 | 1,281,605 |
| Total Current Assets | 153,118,070 | 207,452,936 |
| Property, Plant and Equipment, Net | 124,940,924 | 87,364,502 |
| Goodwill | 112,592,460 | 69,420,256 |
| Intangibles and Other Assets | 43,383,354 | 17,723,464 |
| | \$ 434,034,808 | \$ 381,961,158 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 21,759,848 | \$ 12,116,783 |
| Income Tax Payable | 918,396 | 246,602 |
| Accrued Salaries and Wages | 6,361,986 | 4,978,522 |
| Other Accrued Liabilities | 17,128,807 | 17,609,729 |
| Customer Advance Payment | 7,822,634 | 7,454,650 |
| Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts | 495,007 | 1,221,902 |
| Total Current Liabilities | 54,486,678 | 43,628,188 |
| Long-Term Debt Due After One Year | 100,000,000 | 100,000,000 |
| Deferred Income Taxes | 30,654,773 | 10,466,932 |
| Shareholders' Equity: | | |
| Common Stock, \$1 Par Value, Shares Authorized -50,000,000, Shares Issued 12,609,160 | 12,609,160 | 12,609,160 |
| Capital In Excess of Par Value | 23,820,030 | 20,783,366 |
| Accumulated Other Comprehensive Income (Loss) | 222,986 | (672,858) |
| Retained Earnings | 212,789,947 | 196,394,134 |
| | (548,766) | (1,247,764) |

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Less Common Stock Held In Treasury, At Cost (111,106 Shares at November 30, 2010 and 252,638 Shares at February 28, 2010)

| | | |
|----------------------------|----------------|----------------|
| Total Shareholders' Equity | 249,893,357 | 227,866,038 |
| | \$ 434,034,808 | \$ 381,961,158 |

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|--------------------|---------------|-------------------|----------------|
| | 11/30/10 | 11/30/09 | 11/30/10 | 11/30/09 |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) |
| Net Sales | \$ 102,897,545 | \$ 81,518,198 | \$ 279,963,160 | \$ 272,167,391 |
| Costs And Expenses | | | | |
| Cost Of Sales | 75,252,872 | 55,804,749 | 199,702,328 | 186,151,862 |
| Selling, General and Administrative | 10,918,206 | 10,238,451 | 35,422,991 | 33,751,428 |
| Interest Expense | 1,787,161 | 1,728,621 | 5,246,405 | 5,146,184 |
| Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds | 6,505 | (47,688) | (50,613) | (118,171) |
| Other Income | (256,803) | (82,108) | (1,017,215) | (463,439) |
| | 87,707,941 | 67,642,025 | 239,303,896 | 224,467,864 |
| Income Before Income Taxes | 15,189,604 | 13,876,173 | 40,659,264 | 47,699,527 |
| Income Tax Expense | 5,472,062 | 5,133,442 | 14,921,478 | 17,937,736 |
| Net Income | \$ 9,717,542 | \$ 8,742,731 | \$ 25,737,786 | \$ 29,761,791 |
| Earnings Per Common Share | | | | |
| Basic Earnings Per Share | \$ 0.78 | \$ 0.71 | \$ 2.07 | \$ 2.43 |
| Diluted Earnings Per Share | \$ 0.77 | \$ 0.70 | \$ 2.04 | \$ 2.39 |

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTHS ENDED | |
|--|----------------------|---------------------|
| | 11/30/10 | 11/30/09 |
| | (Unaudited) | (Unaudited) |
| Cash Flows From Operating Activities: | | |
| Net Income | \$25,737,786 | \$29,761,791 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Provision for Doubtful Accounts | 102,146 | 65,932 |
| Amortization and Depreciation | 16,163,780 | 12,985,567 |
| Deferred Income Tax Expense | (574,701) | (464,849) |
| Net Gain on Sale or Insurance Settlement of Property, Plant & Equipment | (50,613) | (118,171) |
| Amortization of Deferred Borrowing Costs | 245,712 | 229,046 |
| Share-Based Compensation Expense | 2,801,435 | 2,060,335 |
| Effects of Changes In Assets & Liabilities: | | |
| Accounts Receivable | (5,241,586) | 16,809,276 |
| Inventories | (7,764,627) | 9,809,027 |
| Prepaid Expenses And Other | (646,750) | (923,974) |
| Other Assets | (113,604) | 21,064 |
| Net Change In Billings Related to Costs and Estimated Earnings on Uncompleted Contracts | (4,449,069) | 4,133,108 |
| Accounts Payable | 2,749,274 | (2,766,720) |
| Other Accrued Liabilities and Income Taxes | (3,430,660) | (6,105,709) |
| Net Cash Provided By Operating Activities | 25,528,523 | 65,495,723 |
| Cash Flows From Investing Activities: | | |
| Proceeds From Sale or Insurance Settlement of Property, Plant, and Equipment | 195,617 | 410,445 |
| Purchase of Property, Plant and Equipment | (10,986,924) | (10,226,133) |
| Acquisition of Subsidiaries, Net of Cash Acquired | (104,091,416) | (6,899,561) |
| Net Cash Used In Investing Activities | (114,882,723) | (16,715,249) |
| Cash Flows From Financing Activities: | | |
| Proceeds From Exercise of Stock Options and Stock Appreciation Rights | 379,955 | 466,117 |
| Excess Tax Benefits From Stock Options and Stock Appreciation Rights | 875,224 | 1,677,418 |
| Proceeds from Revolving Loan | 12,000,000 | - |
| Payments on Revolving Loan | (12,000,000) | - |
| Payments on Long Term Debt | (7,300,000) | - |
| Proceeds From Settlement of Financial Derivative | 834,416 | - |
| Dividends Paid | (9,341,973) | - |
| Net Cash Provided By (Used In) Financing Activities | (14,552,378) | 2,143,535 |

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| | | |
|--|---------------|--------------|
| Effect Of Exchange Rate Changes on Cash | (47,478) | (48,226) |
| Net (Decrease) Increase In Cash & Cash Equivalents | (103,954,056) | 50,875,783 |
| Cash & Cash Equivalents at Beginning of Period | 110,607,029 | 47,557,711 |
| Cash & Cash Equivalents at End of Period | \$6,652,973 | \$98,433,494 |
| Supplemental Disclosures | | |
| Cash Paid For Interest | \$6,560,693 | \$6,477,139 |
| Cash Paid For Income Taxes | \$14,098,568 | \$15,952,943 |

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

| | Common Stock | | Capital in | Retained | Accumulated | Treasury | Total |
|---|--------------|---------------|---------------|----------------|-----------------------------------|----------------|----------------|
| | Shares | Amount | Excess of | | Other | | |
| | | | Par Value | Earnings | Comprehensive Income (Loss) | Stock | |
| Balance at February 28, 2010 | 12,609,160 | \$ 12,609,160 | \$ 20,783,366 | \$ 196,394,134 | \$ (672,858) | \$ (1,247,764) | \$ 227,866,038 |
| Exercise of Stock Options | | | 146,241 | | | 233,714 | 379,955 |
| Stock Compensation | | | 2,766,863 | | | 34,572 | 2,801,435 |
| Stock Issued for SARs | | | (1,272,757) | | | 303,914 | (968,843) |
| Employee Stock Purchase Plan | | | 521,093 | | | 126,798 | 647,891 |
| Federal Income Tax Deducted on Stock Options and SARs | | | 875,224 | | | | 875,224 |
| Cash Dividend Paid | | | | (9,341,973) | | | (9,341,973) |
| Comprehensive Income: | | | | | | | |
| Net Income | | | | 25,737,786 | | | 25,737,786 |
| Foreign Currency Translation | | | | | 356,624 | | 356,624 |
| Interest Rate Swap, net of tax | | | | | 539,220 | | 539,220 |
| Comprehensive Income | | | | | | | 26,633,630 |
| Balance at November 30, 2010 | 12,609,160 | \$ 12,609,160 | \$ 23,820,030 | \$ 212,789,947 | \$ 222,986 | \$ (548,766) | \$ 248,893,357 |

AZZ incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

1. Basis of presentation.

These interim unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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 the SEC rules and regulations referred to above. Accordingly, these financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2010, included in the Company’s Annual Report on Form 10-K covering such period. For purposes of this report, “AZZ”, the “Company”, “we”, “our”, “us” or similar reference mean AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year that ended February 28, 2010 is referred to as fiscal 2010.

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of November 30, 2010, and the results of its operations for the three-month and nine-month periods ended November 30, 2010 and 2009, respectively, and cash flows for the nine-month periods ended November 30, 2010 and 2009.

2. Earnings per share.

Earnings per share is based on the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of stock awards.

The following table sets forth the computation of basic and diluted earnings per share:

| | Three months ended November 30, | | Nine months ended November 30, | |
|--|------------------------------------|------------|--------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| (Unaudited) | | | | |
| (In thousands except share and per share data) | | | | |
| Numerator: | | | | |
| Net income for basic and diluted earnings per common share | \$ 9,718 | \$ 8,743 | \$ 25,738 | \$ 29,762 |
| Denominator: | | | | |
| Denominator for basic earnings per common share –weighted average shares | 12,495,182 | 12,333,472 | 12,448,949 | 12,258,716 |
| Effect of dilutive securities: | | | | |
| Employee and Director stock awards | 126,921 | 187,762 | 141,117 | 210,026 |
| Denominator for diluted earnings per common share | 12,622,103 | 12,521,234 | 12,590,066 | 12,468,742 |
| Earnings per share basic and diluted: | | | | |