AZZ INC
Form 10-Q
September 29, 2008

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

FORM 10-Q

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

For the quarterly period ended August 31, 2008

OR

o 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.)
University Centre I, Suite 200 1300 South University Drive 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 T 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	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
£	T	£	£

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

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 August 31, 2008:
Common Stock, $1.00 par value per share	12,144,216

AZZ incorporated
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	08/31/08	02/29/08
Assets	(UNAUDITED)	
Current Assets		
Cash And Cash Equivalents	$ 12,516,950	$ 2,226,941
Accounts Receivable (Net of Allowance for Doubtful Accounts)	65,016,205	38,901,577
Inventories		
Raw Material	34,681,301	26,554,997
Work-In-Process	22,490,795	14,182,685
Finished Goods	1,715,453	2,688,786
Costs And Estimated Earnings In Excess Of Billings On Uncompleted Contracts	14,608,410	13,044,076
Deferred Income Taxes	3,208,030	4,391,398
Prepaid Expenses And Other	3,144,161	1,004,383
Total Current Assets	157,381,305	102,994,843
Property, Plant And Equipment, Net	83,830,598	48,284,910
Goodwill	68,134,550	40,962,104
Intangibles	18,204,764	986,869
Other Assets	2,021,300	90,554
	$ 329,572,517	$ 193,319,280
Liabilities And Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$ 25,065,137	$ 16,035,932
Income Tax Payable	1,388,279	706,966
Accrued Salaries And Wages	3,967,420	4,919,804
Other Accrued Liabilities	13,815,043	15,119,610
Customer Advance Payment	9,917,334	2,115,330
Billings In Excess Of Costs And Estimated Earnings On Uncompleted Contracts	961,244	3,798,179
Total Current Liabilities	55,114,457	42,695,821
Long-Term Debt	100,000,000	-
Deferred Income Taxes	6,208,365	4,466,834
Shareholders' Equity:		
Common Stock, $1 Par Value		
Shares Authorized, 25,000,000		
Shares Issued and Outstanding, 12,609,160	12,609,160	12,609,160
Capital In Excess Of Par Value	17,707,215	16,369,938
Accumulated Other Comprehensive Loss	(745,700)	-
Retained Earnings	140,975,321	119,549,115
	(2,296,301)	(2,371,588)

Less Common Stock Held In Treasury, At Cost (464,944 And 480,188 Shares At August 31, 2008 And February 29, 2008, Respectively)		
Total Shareholders' Equity	168,249,695	146,156,625
	$ 329,572,517	$ 193,319,280

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	8/31/08	8/31/07	8/31/08	8/31/07
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Net Sales	$ 103,259,467	$ 81,606,288	$ 203,217,724	$ 156,983,321
Costs And Expenses				
Cost Of Sales	73,782,379	60,365,388	147,471,782	116,573,750
Selling, General and Administrative	11,372,056	8,363,061	21,228,577	20,367,380
Interest Expense	1,681,662	384,219	2,802,450	919,343
Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds	(1,147,826)	(2,269)	(1,145,219)	1,094
Other (Income)	(579,473)	(361,598)	(1,063,240)	(556,371)
	85,108,798	68,748,801	169,294,350	137,305,196
Income Before Income Taxes	18,150,669	12,857,487	33,923,374	19,678,125
Income Tax Expense	6,847,028	4,735,653	12,497,168	7,409,836
Net Income	$ 11,303,641	$ 8,121,834	$ 21,426,206	$ 12,268,289
Earnings Per Common Share				
Basic Earnings Per Share	$ 0.93	$ 0.67	$ 1.77	$ 1.03
Diluted Earnings Per Share	$ 0.92	$ 0.66	$ 1.74	$ 1.01

PART I. FINANCIAL INFORMATION

Item I. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED	
	8/31/08	8/31/07
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net Income	$ 21,426,206	$ 12,268,289
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Provision For Doubtful Accounts	220,738	1,419
Amortization And Depreciation	6,865,017	4,007,035
Deferred Income Tax Expense (Benefit)	2,924,470	(137,230)
Net (Gain) Loss On Sale Or Insurance Settlement Of Property, Plant & Equipment	(1,145,219)	1,094
Non-Cash Compensation Expense	1,308,869	658,170
Effects Of Changes In Assets & Liabilities:		
Accounts Receivable	(15,694,021)	6,567,134
Inventories	(2,667,984)	(3,820,862)
Prepaid Expenses And Other	(2,046,516)	699,069
Other Assets	(2,052,225)	(31,287)
Net Change In Billings Related To Costs And Estimated Earnings On Uncompleted Contracts	(4,401,268)	(1,317,114)
Accounts Payable	7,713,797	(3,359,212)
Other Accrued Liabilities And Income Taxes	141,013	(451,898)
Net Cash Provided By Operating Activities	12,592,877	15,084,607
Cash Flows Used For Investing Activities:		
Proceeds From Sale Or Insurance Settlement Of Property, Plant, And Equipment	2,495,210	122,007
Purchase Of Property, Plant And Equipment	(9,440,690)	(6,082,628)
Acquisition Of Subsidiaries, Net Of Cash Acquired	(95,418,784)	-
Net Cash Used In Investing Activities	(102,364,264)	(5,960,621)
Cash Flows From Financing Activities:		
Proceeds From Exercise Of Stock Options	31,242	3,364,762
Excess Tax Benefits From Stock Options Exercises	72,453	2,872,545
Proceeds From Long-Term Debt	100,000,000	-
Payments On Long Term Debt	-	(15,200,000)
Net Cash Provided By (Used In) Financing Activities	100,103,695	(8,962,693)
Effect Of Exchange Rate Changes On Cash	(42,299)	-
Net Increase In Cash & Cash Equivalents	10,290,009	161,293

Cash & Cash Equivalents At Beginning Of Period	2,226,941	1,703,092
Cash & Cash Equivalents At End Of Period	$ 12,516,950	$ 1,864,385
Supplemental Disclosures		
Cash Paid For Interest	$ 74,070	$ 1,050,785
Cash Paid For Income Taxes	$ 8,929,166	$ 3,669,621

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 29, 2008 included in the Company's Annual Report on Form 10-K covering such period. For purposes of the report, "AZZ", the "Company", "we", "our", "us" or similar reference means AZ 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 29, 2008 is referred to as fiscal 2008.

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 August 31, 2008, and the results of its operations for the three-month and six-month periods ended August 31, 2008 and 2007, and cash flows for the six-month periods ended August 31, 2008 and 2007. Operating results for the three and six months ending August 31, 2008 are not necessarily indicative of the results that may be expected for the year ending February 28, 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 shares and earnings per share have been adjusted to reflect our two-for-one stock split, effected in the form of a share dividend on May 4, 2007.

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

	Three months ended August 31,		Six months ended August 31,	
	2008	2007	2008	2007
	(Unaudited)			
	(In thousands except share and per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	$ 11,304	$ 8,122	$ 21,426	$ 12,268
Denominator:				
Denominator for basic earnings per common share –weighted average shares	12,137,327	12,042,092	12,136,087	11,913,583
Effect of dilutive securities:	207,389	234,936	181,107	237,315

Employee and Director stock awards								
Denominator for diluted earnings per common share		12,344,716		12,277,028		12,317,194		12,150,898
Earnings per share basic and diluted:								
Basic earnings per common share	$	.93	$	.67	$	1.77	$	1.03
Diluted earnings per common share	$	.92	$	.66	$	1.74	$	1.01

3. Stock-based Compensation.

On April 7, 2005, the Company implemented Stock Appreciation Rights Plans (the "Plans") for its key employees and directors. The purpose of the Plans is to enable the Company to attract and retain qualified key employees and directors by offering to them the opportunity to share in increases in the value of the Company to which they contribute. The Company made awards under the Plans in fiscal 2006. There were 207,660 fiscal 2006 awards granted. The awards for fiscal 2006 were fully vested on February 29, 2008 and were paid in cash during the second quarter ended August 31, 2008 in the amount of $4.8 million. The Company recognized $4.8 million for compensation expense related to the fiscal 2006 Stock Appreciation Rights Plan prior to February 29, 2008. There was no additional compensation expense recorded for these Stock Appreciation Rights during the six-month period ended August 31, 2008.

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long-Term Incentive Plan ("2005 Plan"). The purpose of the 2005 Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees and directors restricted stock, performance awards, stock appreciation rights ("SARs" or "Stock Appreciation Rights") and options to purchase Common Stock of the Company. The maximum number of shares that may be issued under the 2005 Plan is 1 million shares. On June 1, 2006, 234,160 SARs were issued under the 2005 Plan with an exercise price of $11.55. As of August 31, 2008, 209,920 SARs were outstanding due to the accelerated vesting of 24,240 SARs as a result of the retirement of two directors and two employees. These awards qualify for equity treatment in accordance with FAS 123R. These stock appreciation rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met. The weighted average fair value of SARs granted on June 1, 2006 was determined to be $2.915 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 27.81% and expected life of 3 years. Compensation expense related to the June 1, 2006 grant was $392,000 and $152,000 for fiscal 2007 and fiscal 2008, respectively. Additional compensation in the amount of $76,000 was recognized during the six month period ended August 31, 2008. As of August 31, 2008, we had unrecognized cost of $63,000 related to the June 1, 2006 SAR grants.

On March 1, 2007, 147,740 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of $19.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met and qualify for equity treatment under SFAS 123R. The weighted average fair value of SARs granted on March 1, 2007, was determined to be $5.535 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 29.52% and expected life of 3 years. As of August 31, 2008, 140,840 SARs were outstanding due to the accelerated vesting of 6,900 SARs as a result of the retirement of two directors and one employee. Compensation expense in the amount of $512,000 was recognized during fiscal 2008. Additional compensation expense in the amount of $111,000 was recognized in the six month period ended August 31, 2008. We had unrecognized cost of $195,000 related to the March 1, 2007 SAR grants as of August 31, 2008.

On March 1, 2008, 129,800 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of $35.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met and qualify for equity treatment under SFAS 123R. The weighted average fair value of SARs awarded on March 1, 2008, was determined to be $11.80 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 41.81% and expected life of 3 years. Compensation expense in the amount of $824,000 was recognized in the six month period ended August 31, 2008. We had unrecognized cost of $708,000 related to the March 1, 2008 SAR grants as of August 31, 2008.

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4. Segments.

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 29, 2008. Information regarding operations and assets by segment is as follows:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	2008	2007
	(Unaudited)			
	($ In thousands)			
Net Sales:				
Electrical and Industrial Products	$ 51,959	$ 45,150	$ 103,965	$ 86,023
Galvanizing Services	51,301	36,456	99,253	70,960
	$ 103,260	$ 81,606	$ 203,218	$ 156,983
Operating Income (a):				
Electrical and Industrial Products	$ 9,797	$ 7,942	$ 17,729	$ 14,286
Galvanizing Services	15,478	9,230	28,836	17,841
	$ 25,275	$ 17,172	$ 46,565	$ 32,127
General Corporate Expense (b)	$ 5,551	$ 3,925	$ 10,109	$ 11,517
Interest Expense	1,682	384	2,803	919
Other (Income) Expense, Net (c)	(108)	6	(270)	13
	$ 7,125	$ 4,315	$ 12,642	$ 12,449
Income Before Income Taxes	$ 18,150	$ 12,857	$ 33,923	$ 19,678
Total Assets:				
Electrical and Industrial Products	$ 157,739	$ 117,574	$ 157,739	$ 117,574
Galvanizing Services	150,237	79,035	150,237	79,035
Corporate	21,596	6,803	21,596	6,803
	$ 329,572			