

AZZ INC  
Form 10-Q  
October 01, 2010

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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 August 31, 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 T 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

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(§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 ☐ No ☐

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 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                    | Non-accelerated                | Smaller Reporting                |
| <input type="checkbox"/> | filer <input type="checkbox"/> | filer <input type="checkbox"/> | 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 August 31, 2010: |
| Common Stock, \$1.00 par value per share | 12,477,872                      |

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AZZ incorporated  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEETS

|                                                                                                                                 | 08/31/10       | 02/28/10       |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                 | (Unaudited)    |                |
| Assets                                                                                                                          |                |                |
| Current Assets:                                                                                                                 |                |                |
| Cash and Cash Equivalents                                                                                                       | \$ 8,836,398   | \$ 110,607,029 |
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$747,439 at August 31, 2010 and \$720,000 at February 28, 2010) | 55,116,112     | 39,431,918     |
| Inventories:                                                                                                                    |                |                |
| Raw Material                                                                                                                    | 35,395,235     | 23,356,416     |
| Work-In-Process                                                                                                                 | 13,697,072     | 11,541,710     |
| Finished Goods                                                                                                                  | 3,761,620      | 5,226,455      |
| Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts                                                     | 11,030,912     | 10,782,424     |
| Deferred Income Taxes                                                                                                           | 7,675,579      | 5,225,379      |
| Income Tax Receivable                                                                                                           | 7,130,104      | -              |
| Insurance Receivable                                                                                                            | 6,240,178      | -              |
| Prepaid Expenses and Other                                                                                                      | 3,161,418      | 1,281,605      |
| Total Current Assets                                                                                                            | 152,044,628    | 207,452,936    |
| Property, Plant and Equipment, Net                                                                                              | 124,372,383    | 87,364,502     |
| Goodwill                                                                                                                        | 112,505,842    | 69,420,256     |
| Intangibles and Other Assets                                                                                                    | 44,363,914     | 17,723,464     |
|                                                                                                                                 | \$ 433,286,767 | \$ 381,961,158 |
| Liabilities and Shareholders' Equity                                                                                            |                |                |
| Current Liabilities:                                                                                                            |                |                |
| Accounts Payable                                                                                                                | \$ 18,065,343  | \$ 12,116,783  |
| Income Tax Payable                                                                                                              | 526,899        | 246,602        |
| Accrued Salaries and Wages                                                                                                      | 5,753,494      | 4,978,522      |
| Other Accrued Liabilities                                                                                                       | 17,297,255     | 17,609,729     |
| Customer Advance Payment                                                                                                        | 6,871,335      | 7,454,650      |
| Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts                                                     | 909,056        | 1,221,902      |
| Total Current Liabilities                                                                                                       | 49,423,382     | 43,628,188     |
| Long-Term Debt Due After One Year                                                                                               | 112,000,000    | 100,000,000    |
| Deferred Income Taxes                                                                                                           | 31,260,094     | 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                                                                                                  | 23,247,184     | 20,783,366     |
| Retained Earnings                                                                                                               | 206,196,918    | 196,394,134    |
| Accumulated Other Comprehensive Loss                                                                                            | (801,531)      | (672,858)      |

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|                                                                                                                            |                |                |
|----------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Less Common Stock Held In Treasury, At Cost (131,288 Shares at August 31, 2010<br>and 252,638 Shares at February 28, 2010) | (648,440)      | (1,247,764)    |
| Total Shareholders' Equity                                                                                                 | 240,603,291    | 227,866,038    |
|                                                                                                                            | \$ 433,286,767 | \$ 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 |              | SIX MONTHS ENDED |               |
|------------------------------------------------------------------------------|--------------|--------------|------------------|---------------|
|                                                                              | ENDED        |              |                  |               |
|                                                                              | 8/31/10      | 8/31/09      | 8/31/10          | 8/31/09       |
|                                                                              | (Unaudited)  | (Unaudited)  | (Unaudited)      | (Unaudited)   |
| Net Sales                                                                    | \$99,591,069 | \$95,157,192 | \$177,065,615    | \$190,649,193 |
| Costs And Expenses                                                           |              |              |                  |               |
| Cost of Sales                                                                | 70,538,383   | 64,543,362   | 124,449,456      | 130,347,113   |
| Selling, General and Administrative                                          | 12,230,450   | 11,389,428   | 24,504,785       | 23,512,977    |
| Interest Expense                                                             | 1,768,129    | 1,731,006    | 3,459,244        | 3,417,563     |
| Net Gain On Sale of Property, Plant and Equipment,<br>and Insurance Proceeds | (47,688 )    | (65,452 )    | (57,118 )        | (70,483 )     |
| Other Expense (Income)                                                       | (396,462 )   | (300,687 )   | (760,412 )       | (381,331 )    |
|                                                                              | 84,092,812   | 77,297,657   | 151,595,955      | 156,825,839   |
| Income Before Income Taxes                                                   | 15,498,257   | 17,859,535   | 25,469,660       | 33,823,354    |
| Income Tax Expense                                                           | 5,851,502    | 6,740,635    | 9,449,416        | 12,804,294    |
| Net Income                                                                   | \$9,646,755  | \$11,118,900 | \$16,020,244     | \$21,019,060  |
| Earnings Per Common Share                                                    |              |              |                  |               |
| Basic Earnings Per Share                                                     | \$0.77       | \$0.91       | \$1.29           | \$1.72        |
| Diluted Earnings Per Share                                                   | \$0.77       | \$0.89       | \$1.27           | \$1.69        |

See Accompanying Notes to Condensed Consolidated Financial Statements



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                         | SIX MONTHS ENDED |               |
|-----------------------------------------------------------------------------------------|------------------|---------------|
|                                                                                         | 8/31/10          | 8/31/09       |
|                                                                                         | (Unaudited)      | (Unaudited)   |
| Cash Flows From Operating Activities:                                                   |                  |               |
| Net Income                                                                              | \$ 16,020,244    | \$ 21,019,060 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:       |                  |               |
| Provision For Doubtful Accounts                                                         | 16,547           | 75,893        |
| Amortization And Depreciation                                                           | 10,270,645       | 8,444,202     |
| Deferred Income Tax Expense                                                             | (1,392,185 )     | 793,432       |
| Net Gain on Sale or Insurance Settlement of Property, Plant & Equipment                 | (57,118 )        | (70,483 )     |
| Amortization of Deferred Borrowing Costs                                                | 163,114          | 152,697       |
| Share-Based Compensation Expense                                                        | 2,456,867        | 1,814,340     |
| Effects of Changes In Assets & Liabilities:                                             |                  |               |
| Accounts Receivable                                                                     | (6,585,941 )     | 4,138,103     |
| Inventories                                                                             | (4,708,439 )     | 8,177,543     |
| Prepaid Expenses And Other                                                              | (1,465,575 )     | (1,868,078 )  |
| Other Assets                                                                            | (93,690 )        | 10,178        |
| Net Change In Billings Related to Costs and Estimated Earnings on Uncompleted Contracts | (561,334 )       | 2,616,236     |
| Accounts Payable                                                                        | (940,316 )       | (2,103,710 )  |
| Other Accrued Liabilities and Income Taxes                                              | (5,109,338 )     | (6,298,910 )  |
| Net Cash Provided By Operating Activities                                               | 8,013,481        | 36,900,503    |
| Cash Flows From Investing Activities:                                                   |                  |               |
| Proceeds From Sale or Insurance Settlement of Property, Plant, and Equipment            | 186,164          | 233,803       |
| Purchase of Property, Plant and Equipment                                               | (5,498,056 )     | (7,545,821 )  |
| Acquisition of Subsidiaries, Net of Cash Acquired                                       | (104,091,416)    | (7,000,000 )  |
| Net Cash Used In Investing Activities                                                   | (109,403,308)    | (14,312,018)  |
| Cash Flows From Financing Activities:                                                   |                  |               |
| Proceeds From Exercise of Stock Options and Stock Appreciation Rights                   | 379,956          | 131,617       |
| Excess Tax Benefits From Stock Options and Stock Appreciation Rights                    | 729,643          | 1,677,418     |
| Proceeds from Revolving Loan                                                            | 12,000,000       | -             |
| Payments on Long Term Debt                                                              | (7,300,000 )     | -             |
| Dividends Paid                                                                          | (6,217,460 )     | -             |
| Net Cash Provided By (Used In ) Financing Activities                                    | (407,861 )       | 1,809,035     |
| Effect Of Exchange Rate Changes on Cash                                                 | 27,057           | (2,830 )      |

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|                                                                       |               |              |
|-----------------------------------------------------------------------|---------------|--------------|
| Net (Decrease) Increase In Cash & Cash Equivalents                    | (101,770,631) | 24,394,690   |
| Cash & Cash Equivalents at Beginning of Period                        | 110,607,029   | 47,557,711   |
| Cash & Cash Equivalents at End of Period                              | \$8,836,398   | \$71,952,401 |
| Supplemental Disclosures                                              |               |              |
| Cash Paid For Interest                                                | \$3,279,794   | \$3,264,866  |
| Cash Paid For Income Taxes                                            | \$8,711,060   | \$9,561,547  |
| 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<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |  | Treasury<br>Stock | Total          |
|-------------------------------------------------------------------|--------------|---------------|--------------------------------------|----------------------|-----------------------------------------------------------|--|-------------------|----------------|
|                                                                   | Shares       | Amount        |                                      |                      |                                                           |  |                   |                |
| Balance at<br>February 28,<br>2010                                | 12,609,160   | \$ 12,609,160 | \$ 20,783,366                        | \$ 196,394,134       | \$ (672,858)                                              |  | \$ (1,247,764)    | \$ 227,866,038 |
| Exercise of<br>Stock Options                                      |              |               | 146,242                              |                      |                                                           |  | 233,714           | 379,956        |
| Stock<br>Compensation                                             |              |               | 2,422,295                            |                      |                                                           |  | 34,572            | 2,456,867      |
| Stock Issued<br>for SARs                                          |              |               | (1,074,064)                          |                      |                                                           |  | 269,743           | (804,321)      |
| Employee<br>Stock Purchase<br>Plan                                |              |               | 239,702                              |                      |                                                           |  | 61,295            | 300,997        |
| Federal Income<br>Tax Deducted<br>on Stock<br>Options and<br>SARs |              |               | 729,643                              |                      |                                                           |  |                   | 729,643        |
| Cash Dividend<br>Paid                                             |              |               |                                      | (6,217,460)          |                                                           |  |                   | (6,217,460)    |
| Comprehensive<br>Income:                                          |              |               |                                      |                      |                                                           |  |                   |                |
| Net Income                                                        |              |               |                                      | 16,020,244           |                                                           |  |                   | 16,020,244     |
| Foreign<br>Currency<br>Translation                                |              |               |                                      |                      | (128,673)                                                 |  |                   | (128,673)      |
| Comprehensive<br>Income                                           |              |               |                                      |                      |                                                           |  |                   | 15,891,571     |
| Balance at<br>August 31,<br>2010                                  | 12,609,160   | \$ 12,609,160 | \$ 23,247,184                        | \$ 206,196,918       | \$ (801,531)                                              |  | \$ (648,440)      | \$ 240,603,291 |

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 (the "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 the report, "AZZ", the "Company", "we", "our", "us" or similar reference means 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 August 31, 2010, and the results of its operations for the three-month and six-month periods ended August 31, 2010 and 2009, respectively, and cash flows for the six-month periods ended August 31, 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 August 31, |            | Six months ended August 31, |            |
|-------------------------------------------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                                                         | 2010                          | 2009       | 2010                        | 2009       |
| (Unaudited)                                                             |                               |            |                             |            |
| (In thousands except share and per share data)                          |                               |            |                             |            |
| Numerator:                                                              |                               |            |                             |            |
| Net income for basic and diluted earnings per common share              | \$ 9,647                      | \$ 11,119  | \$ 16,020                   | \$ 21,019  |
| Denominator:                                                            |                               |            |                             |            |
| Denominator for basic earnings per common share—weighted average shares | 12,454,932                    | 12,273,428 | 12,425,833                  | 12,221,338 |
| Effect of dilutive securities:                                          |                               |            |                             |            |
| Employee and Director stock awards                                      | 144,458                       | 201,381    | 148,215                     | 221,157    |
|                                                                         | 12,599,390                    | 12,474,809 | 12,574,048                  | 12,442,495 |

Denominator for diluted  
earnings per common share

Earnings per share basic and  
diluted:

|                                    |         |         |         |         |
|------------------------------------|---------|---------|---------|---------|
| Basic earnings per common<br>share | \$ 0.77 | \$ 0.91 | \$ 1.29 | \$ 1.72 |
|------------------------------------|---------|---------|---------|---------|

|                                      |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|
| Diluted earnings per<br>common share | \$ 0.77 | \$ 0.89 | \$ 1.27 | \$ 1.69 |
|--------------------------------------|---------|---------|---------|---------|

### 3. Stock-based Compensation.

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long-Term Incentive Plan (as amended, the “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 2005 Plan was amended on July 8, 2008. 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, 2010, all of these SARs were vested and exercised. These awards qualified for equity treatment. The weighted average fair value of SARs granted on June 1, 2006 was determined to be \$2.92 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 grants of \$0 and \$19,000 were recognized during the six month periods ended August 31, 2010 and 2009, respectively. As of August 31, 2010, we had no unrecognized cost 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 2005 Plan are met and qualify for equity treatment. The weighted average fair value of SARs granted on March 1, 2007, was determined to be \$5.54 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, 2010, all of these SARs were vested and exercised. Compensation expense related to the March 1, 2007 grants of \$0 and \$52,000 were recognized during the six month periods ended August 31, 2010 and 2009, respectively. As of August 31, 2010, we had no unrecognized costs related to the March 1, 2007 SAR grants.

On March 1, 2008, 131,690 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 2005 Plan are met and qualify for equity treatment. 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. As of August 31, 2010, 123,060 of these SARs were outstanding after giving effect to the forfeiture of 6,740 SARs and the exercise of 1,890 SARs due to the accelerated vesting of a retired employee. Compensation expense related to the March 1, 2008 grants of \$118,000 and \$118,000 were recognized during the six month periods ended August 31, 2010 and 2009, respectively. As of August 31, 2010, we had unrecognized cost of \$118,000 related to the March 1, 2008 SAR grants.

On September 1, 2008, we implemented the AZZ incorporated Employee Stock Purchase Plan (the “Plan”). The purpose of the Plan is to allow employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under the Plan have a duration of 24 months. On the first day of an offering period (the “Enrollment Date”), the participant is granted the option to purchase shares on each exercise date during the offering period up to 10% of the participant’s compensation at the lower of 85% of the fair market value of a share of stock on the Enrollment Date or 85% of the fair market value of a share of stock on the exercise date. The participant’s right to purchase stock in the Plan is restricted to no more than \$25,000 per calendar year and to no more than 5,000 shares per 24 month offering period. Participants may terminate their interest in a given offering, or a given exercise period, by withdrawing all, but not less than all, of the accumulated payroll deductions of the account at any time prior to the end of the offering period. We estimate the shares to be issued on the first enrollment to be 36,100 shares after estimated forfeitures. The weighted average fair value of these shares was determined to be \$14.69 based on the following assumptions: risk-free interest rate of 2%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years.



Compensation expenses in the amount of \$133,000 and \$133,000 were recognized during the six month periods ended August 31, 2010, and 2009, respectively. As of August 31, 2010, we had unrecognized cost of \$133,000 related to the Plan. In accordance with the Plan, 20,822, 9,097 and 7,245 shares were issued on March 1, 2009, September 1, 2009 and March 1, 2010, respectively, to the enrolled employees. On March 1, 2009, the date of the second offering, the estimated shares to be issued were 14,019 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$7.33 based on the following assumptions: risk-free interest rate of 3%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expenses in the amount of \$26,000 and \$26,000 were recognized during the six month period ended August 31, 2010, and 2009, respectively. In accordance with the Plan, 4,175 and 5,943 shares were issued on March 1, 2010 and September 1, 2009, respectively. As of August 31, 2010, we had unrecognized costs of \$26,000 related to the second issue of the Plan. On September 1, 2009, the date of the third offering, the estimated shares to be issued were 3,523 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.31 based on the following assumptions: risk-free interest rate of 3.25%, dividend yield of 0.0%, expected volatility of 54.52% and expected life of 2 years. Compensation expense in the amount of \$13,000 was recognized during the six month period ended August 31, 2010. As of August 31, 2010, we had unrecognized costs of \$27,000 related to the third issue of the Plan. In accordance with the Plan, 991 shares were issued on March 1, 2010 to the enrolled employees. On March 1, 2010, the date of the fourth offering, the estimated shares to be issued were 2,715 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.19 based on the following assumptions: risk-free interest rate of 3.87%, dividend yield of 2.96%, expected volatility of 67.65% and expected life of 2 years. Compensation expense in the amount of \$10,000 was recognized during the six month period ended August 31, 2010. As of August 31, 2010, we had unrecognized costs of \$31,000 related to the third issue of the Plan.

On March 1, 2009, 31,666 shares of Restricted Stock were issued to our key employees under the 2005 Plan. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was \$18.12 on the date of grant. Compensation expense in the amount of \$38,000 and \$377,000 were recognized during the six month periods ended August 31, 2010 and August 31, 2009, respectively. The amount of unrecognized cost at August 31, 2010 was \$113,000.

On March 1, 2009, 163,233 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$18.12. These Stock Appreciation Rights have a three year vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met and qualify for equity treatment. The weighted average fair value of SARs awarded on March 1, 2009, was determined to be \$8.08 based on the following assumptions: risk-free interest rate of 3%, dividend yield of 0.0%, expected volatility of 46.89% and expected life of 5 years. As of August 31, 2010, 141,584 SARs were outstanding after giving effect to the forfeiture of 1,661 SARs and the exercise of 19,988 SARs. Compensation expense in the amount of \$87,000 and \$865,000 was recognized during the six month periods ended August 31, 2010 and August 31, 2009, respectively. As of August 31, 2010, we had unrecognized cost of \$262,000 related to the March 1, 2009 SAR grants.

On March 1, 2010, 150,382 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$31.67. These Stock Appreciation Rights have a three year vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met and qualify for equity treatment. The weighted average fair value of SARs awarded on March 1, 2010, was determined to be \$12.31 based on the following assumptions: risk-free interest rate of 3.61%, dividend yield of 3.16%, expected volatility of 53.31% and expected life of 5 years. Compensation expense in the amount of \$1,238,000 was recognized during the six month period ended August 31, 2010. As of August 31, 2010, we had unrecognized cost of \$613,000 related to the March 1, 2010 SAR grants.



On March 1, 2010, 22,906 shares of Restricted Stock were issued to our key employees under the 2005 Plan. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was \$31.67 on the date of grant. Compensation expense in the amount of \$487,000 was recognized during the six month period ended August 31, 2010. The amount of unrecognized cost at August 31, 2010 was \$238,000.

During fiscal 2011 and 2010, the Company granted its directors 7,000 and 7,000 shares of the Company's common stock, respectively. Stock compensation expense was recognized with regard to these grants in the amount of \$286,000 and \$226,000 for the six month periods ended August 31, 2010 and 2009, respectively.

On June 1, 2010, 1,887 shares of Restricted Stock were issued to a key employee under the 2005 Plan. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was \$40.01 on the date of grant. Compensation expense in the amount of \$6,000 was recognized during the six month period ended August 31, 2010. The amount of unrecognized cost at August 31, 2010 was \$69,000.

On June 1, 2010, 11,014 Stock Appreciation Rights were awarded to a key employee under the 2005 Plan with an exercise price of \$40.01. These Stock Appreciation Rights have a three year vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met and qualify for equity treatment. The weighted average fair value of SARs awarded on March 1, 2010, was determined to be \$15.70 based on the following assumptions: risk-free interest rate of 2.20%, dividend yield of 2.50%, expected volatility of 53.32% and expected life of 5 years. Compensation expense in the amount of \$14,000 was recognized during the six month period ended August 31, 2010. As of August 31, 2010, we had unrecognized cost of \$159,000 related to the June 1, 2010 SARs grant.

#### 4. Segments.

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 28, 2010. Information regarding operations and assets by segment is as follows:

|                                    | Three Months Ended August 31, |            | Six Months Ended August 31, |            |
|------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                    | 2010                          | 2009       | 2010                        | 2009       |
|                                    | (Unaudited)                   |            |                             |            |
|                                    | (In thousands)                |            |                             |            |
| Net Sales:                         |                               |            |                             |            |
| Electrical and Industrial Products | \$ 40,768                     | \$ 55,568  | \$ 77,929                   | \$ 110,954 |
| Galvanizing Services               | 58,823                        | 39,589     | 99,137                      | 79,695     |
|                                    | 99,591                        | 95,157     | 177,066                     | 190,649    |
| Operating Income (a):              |                               |            |                             |            |
| Electrical and Industrial Products | 7,538                         | 12,094     | 14,148                      | 22,606     |
| Galvanizing Services               | 15,241                        | 12,303     | 26,715                      | 25,096     |
|                                    | 22,779                        | 24,397     | 40,863                      | 47,702     |
| General Corporate Expense (b)      | 5,515                         | 4,818      | 11,967                      | 10,502     |
| Interest Expense                   | 1,768                         | 1,731      | 3,459                       | 3,418      |
| Other (Income) Expense, Net (c)    | (2 )                          | (11 )      | (33 )                       | (41 )      |
|                                    | 7,281                         | 6,538      | 15,393                      | 13,879     |
| Income Before Income Taxes         | \$ 15,498                     | \$ 17,859  | \$ 25,470                   | \$ 33,823  |
| Total Assets:                      |                               |            |                             |            |
| Electrical and Industrial Products | \$ 123,866                    | \$ 155,532 | \$ 123,866                  | \$ 155,532 |
| Galvanizing Services               | 271,847                       | 141,017    | 271,847                     | 141,017    |
| Corporate                          | 37,574                        | 80,593     | 37,574                      | 80,593     |
|                                    | \$ 433,287                    | \$ 377,142 | \$ 433,287                  | \$ 377,142 |

- (a) Segment operating income consists of net sales, less cost of sales, specifically identifiable selling, general and administrative expenses, and other income and expense items that are specifically identifiable to a segment.
- (b) General Corporate Expense consists of selling, general and administrative expenses that are not specifically identifiable to a segment.
- (c) Other (income) expense, net includes gains and losses on sale of property, plant and equipment and other (income) expenses not specifically identifiable to a segment.



## 5. Warranty reserves.

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products for our Electrical and Industrial Segment and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and makes adjustments accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following table shows changes in the warranty reserves since the end of fiscal 2008:

|                              | Warranty<br>Reserve<br>(unaudited)<br>(In<br>thousands) |
|------------------------------|---------------------------------------------------------|
| Balance at February 29, 2008 | \$ 1,732                                                |
| Warranty costs incurred      | (1,454)                                                 |
| Additions charged to income  | 1,737                                                   |
| Balance at February 28, 2009 | \$ 2,015                                                |
| Warranty costs incurred      | (2,130)                                                 |
| Additions charged to income  | 2,912                                                   |
| Balance at February 28, 2010 | \$ 2,797                                                |
| Warranty costs incurred      | (1,501)                                                 |
| Additions charged to income  | 584                                                     |
| Balance at August 31, 2010   | \$ 1,880                                                |

## 6. Acquisition.

On June 14, 2010 AZZ completed the merger of NGA with our subsidiary, resulting in NGA becoming a subsidiary of AZZ. The total estimated cash purchase price for NGA was \$132 million, (\$104 million net of cash acquired on hand at NGA of \$28 million). The acquisition was funded from our cash on hand and our existing credit facility. For the three and six month periods ended August 31, 2010 we have expensed \$.7 million and \$1.8 million, respectively, in acquisition cost related to the NGA acquisition.

The following pro forma information is based on the assumption the acquisition of NGA took place on March 1, 2010 for the income statement for the three month and six month period ended August 31, 2009 and 2010.

|                                              | Three Months Ended August<br>31, |            | Six Months Ended August 31, |            |
|----------------------------------------------|----------------------------------|------------|-----------------------------|------------|
|                                              | 2010                             | 2009       | 2010                        | 2009       |
| (In thousands, except for per share amounts) |                                  |            |                             |            |
| Net Sales                                    | \$ 102,186                       | \$ 113,300 | \$ 195,976                  | \$ 229,401 |
| Net Income                                   | \$ 9,768                         | \$ 13,773  | \$ 19,675                   | \$ 27,601  |
| Earnings Per Common<br>Share                 |                                  |            |                             |            |
| Basic Earnings Per<br>Share                  | \$ 0.78                          | \$ 1.12    | \$ 1.58                     | \$ 2.26    |
|                                              | \$ 0.78                          | \$ 1.10    | \$ 1.56                     | \$ 2.22    |

Diluted Earnings Per  
Share

Under the acquisition method of accounting, the total purchase price will be allocated to NGA's net tangible and intangible assets based on their estimated fair values as of June 14, 2010, the date on which AZZ acquired control of NGA. The excess of the purchase price over the net tangible and intangible assets will be recorded as goodwill. AZZ has made an allocation of the estimated purchase price as follows (in thousands):

## Purchase Price Allocation:

|                        |            |
|------------------------|------------|
| Current Assets         | \$59,273   |
| Property and Equipment | 40,585     |
| Intangible Assets      | 28,000     |
| Goodwill               | 43,208     |
| Other Assets           | 412        |
| Total Assets Required  | 171,478    |
| Current Liabilities    | (11,653 )  |
| Long Term Liabilities  | (27,381 )  |
| Net Assets Acquired    | \$ 132,444 |

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

## FORWARD LOOKING STATEMENTS

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as, “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management’s views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the electrical power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the economic conditions of the various markets that AZZ serves, foreign and domestic, customer request delays of shipments, acquisition opportunities, adequacy of financing, and availability of experienced management employees to implement AZZ’s growth strategy. AZZ has provided additional information regarding risks associated with the business in AZZ’s Annual Report on Form 10-K for the fiscal year ended February 28, 2010 and other filings with the SEC, available for viewing on AZZ’s website at [www.azz.com](http://www.azz.com) and on the SEC’s website at [www.sec.gov](http://www.sec.gov).

You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussion should be read in conjunction with management’s discussion and analysis contained in our Annual Report on Form 10-K for the year ended February 28, 2010, as well as with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.



## RESULTS OF OPERATIONS

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 28, 2010. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue by segment and segment operating income to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this Quarterly Report on Form 10-Q.

## Orders and Backlog

Our backlog was \$106.5 million as of August 31, 2010, a decrease of \$3.4 million or 3%, as compared to \$109.9 million at February 28, 2010. Our entire backlog relates to our Electrical and Industrial Products Segment. Our book-to-ship ratio was .95 to 1 for the second quarter ended August 31, 2010, as compared to 0.89 to 1 for the same period in the prior year. Our book to ship ratio was .98 to 1 for the six month period ended August 31, 2010. Incoming orders for the three and six month periods ended August 31, 2010 increased 13% and 12%, respectively, over the same periods a year ago. The markets for our Electrical and Industrial Products have not shown the level of stability or the recovery that we had anticipated. Based upon our quotation activity and conversations with our customers, we do not believe that our backlog will show appreciable increases in the current fiscal year. The demand for our galvanizing services has improved primarily in our northern operations. We continue our efforts to identify additional product and market opportunities for growth and enhance our strategic position. While it is difficult to forecast timing of order releases in this market, we anticipate that it will be the first quarter of our fiscal 2012 before we start seeing a rebuilding of our backlog. Orders included in the backlog are represented by contracts and purchase orders that we believe to be firm. The following table reflects our bookings and shipments on a quarterly basis for the period ended August 31, 2010, as compared to the same period in the prior fiscal year.

Backlog Table  
(In thousands)(unaudited)

|                    | Period<br>Ended |         | Period<br>Ended |         |
|--------------------|-----------------|---------|-----------------|---------|
| Backlog            | 2/28/10 \$      | 109,918 | 2/28/09 \$      | 174,831 |
| Bookings           |                 | 78,603  |                 | 70,719  |
| Shipments          |                 | 77,475  |                 | 95,492  |
| Backlog            | 5/31/10 \$      | 111,046 | 5/31/09 \$      | 150,058 |
| Book to Ship Ratio |                 | 1.01    |                 | .74     |
| Bookings           |                 | 95,033  |                 | 84,458  |
| Shipments          |                 | 99,591  |                 | 95,157  |
| Backlog            | 8/31/10 \$      | 106,488 | 8/31/09 \$      | 139,359 |
| Book to Ship Ratio |                 | .95     |                 | .89     |



## Segment Revenues

The following table reflects the breakdown of revenue by segment:

|                                    | Three Months Ended        |           | Six Months Ended |            |
|------------------------------------|---------------------------|-----------|------------------|------------|
|                                    | 8/31/2010                 | 8/31/2009 | 8/31/2010        | 8/31/2009  |
|                                    | (In thousands)(unaudited) |           |                  |            |
| Revenue:                           |                           |           |                  |            |
| Electrical and Industrial Products | \$ 40,768                 | \$ 55,568 | \$ 77,929        | \$ 110,954 |
| Galvanizing Services               | 58,823                    | 39,589    | 99,137           | 79,695     |
| Total Revenue                      | \$ 99,591                 | \$ 95,157 | \$ 177,066       | \$ 190,649 |

For the three and six-month periods ended August 31, 2010, consolidated revenues were \$99.6 million and \$177.1 million, a 5% increase and 7% decrease, respectively, as compared to the same periods in fiscal 2010. The Electrical and Industrial Products Segment contributed 41% and 44%, respectively, of the Company's revenues, and the Galvanizing Services Segment accounted for the remaining 59% and 56%, respectively, of the combined revenues for both the three and six-month periods ended August 31, 2010.

Revenues for the Electrical and Industrial Products Segment decreased \$14.8 million or 27% for the three-month period ended August 31, 2010, and decreased \$33 million or 30% for the six-month period ended August 31, 2010, as compared to the same period in fiscal 2010. The decreased revenues were the result of reduced order intake during the third and fourth quarters of fiscal 2010.

Revenues in the Galvanizing Services Segment increased \$19.2 million or 49% for the three-month period ended August 31, 2010, as compared to the same period in fiscal 2010 and increased \$19.4 million or 24% for the six-month period ended August 31, 2010, as compared to the same period in fiscal 2010. The volume of steel galvanized increased 49% and 25% for the three and six months periods ended August 31, 2010, respectively, as compared to the same period in the prior year. The average selling price for the three and six month periods ended August 31, 2010, decreased 1% for the three month period and 2% for the six month period, as compared to the same periods in the prior year. The revenues from the acquisition of NGA accounted for 79% and 78% of the increase in revenues for the three and six month periods ended August 31, 2010, respectively. Revenues from the NGA acquisition were \$15.1 million for the three and six month periods ended August 31, 2010. Historically, revenues for this segment have closely followed the condition of the industrial sector of the general economy.

## Segment Operating Income

The following table reflects the breakdown of total operating income by segment:

|                                    | Three Months Ended        |           | Six Months Ended |           |
|------------------------------------|---------------------------|-----------|------------------|-----------|
|                                    | 8/31/2010                 | 8/31/2009 | 8/31/2010        | 8/31/2009 |
|                                    | (In thousands)(Unaudited) |           |                  |           |
| Segment Operating Income:          |                           |           |                  |           |
| Electrical and Industrial Products | \$ 7,538                  | \$ 12,094 | \$ 14,148        | \$ 22,606 |
| Galvanizing Services               | 15,241                    | 12,303    | 26,715           | 25,096    |
|                                    | \$ 22,779                 | \$ 24,397 | \$ 40,863        | \$ 47,702 |

Total Segment Operating  
Income

Our total segment operating income decreased 7% for the quarter ended August 31, 2010 to \$22.8 million as compared to \$24.4 million for the same period in fiscal 2010. For the six-month period ended August 31, 2010, our total segment operating income decreased 14% to \$40.9 million, as compared to \$47.7 million for the same period ended August 31, 2009.

Segment operating income in the Electrical and Industrial Products Segment decreased 37.7% and 37.4% for the three and six-month periods ended August 31, 2010, to \$7.5 million and \$14.1 million, respectively, as compared to \$12.1 million and \$22.6 million, respectively, for the same periods in fiscal 2010. Operating margins were 19% for the three month and 18% for the six month periods ended August 31, 2010, as compared to 22% and 20%, respectively, for the comparable periods in fiscal 2010. Decreased operating margins for the three and six month periods resulted from the loss of leverage from lower revenues.

In the Galvanizing Services Segment, operating income increased 24% and 6% for the three and six-month periods ended August 31, 2010, to \$15.2 million and \$26.7 million, respectively, as compared to \$12.3 million and \$25.1 million, respectively, for the same periods in fiscal 2010. The increase in operating income is from the acquisition of NGA. The acquisition of NGA generated \$3.6 million of operating income for the second quarter of fiscal 2011. Operating margins were 26% and 27% for the three and six-month periods ended August 31, 2010, as compared to 31% for both comparable periods in fiscal 2010. Lower operating margins are the result of higher zinc costs for the compared periods.

#### General Corporate Expenses

General corporate expenses, (see Note 4 to consolidated financial statements) not specifically identifiable to a segment, for the three-month period ended August 31, 2010, were \$5.5 million compared to \$4.8 million for the same period in fiscal 2010. For the six-month period ended August 31, 2010, general corporate expenses were \$12 million as compared to \$10.5 million for the comparable period in the prior year. The increase in general and corporate expense was due to \$1.8 million of expensed acquisition cost during the six month period ended August 31, 2010. As a percentage of sales, general corporate expenses were 6% and 7%, respectively, for the three and six-month periods ended August 31, 2010, as compared to 5% and 6%, respectively, for the same periods in fiscal 2010.

#### Interest

Net interest expense for the three and six-month periods ended August 31, 2010 was basically unchanged at \$1.8 million for the three months and \$3.5 million for the six months ended August 31, 2010. The Notes were issued on March 31, 2008 and therefore the prior year had one less month of interest expense relating to the Notes than the current year. We had outstanding long term debt of \$112 million as of August 31, 2010 and \$100 million as of August 31, 2009. We drew down \$12 million under our revolving line of credit to complete the NGA acquisition.

#### Other (Income) Expense

For the three-month and six-month periods ended August 31, 2010, the amounts in other (income) expense not specifically identifiable with a segment (see Note 4 to consolidated financial statements) were insignificant.

#### Income Taxes

The provision for income taxes reflects an effective tax rate of 38% for the three-month period ended August 31, 2009 and 2010. For the six month period ended August 31, 2010 the tax rate was 37% as compared to 38% for the same period in the prior year.

### LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, cash dividends, debt repayment, letters of credit and acquisitions. We believe that working capital, funds available under our credit agreement, and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, dividends and payment of debt.

Our operating activities generated cash flows of approximately \$8 million for the six-month period ended August 31, 2010, and \$36.9 million during the same period in the prior fiscal year. Cash flow from operations for the six months ended August 31, 2010 included net income in the amount of \$16 million, depreciation and amortization in the amount of \$10.3 million, and other adjustments to reconcile net income to net cash in the amount of a \$1.2 million. Included in other adjustments were provisions for bad debt in the amount of \$.02 million, deferred income taxes in the amount of (\$1.4) million, gain or loss on the sale of assets in the amount of (\$.06) million, and non-cash adjustments in the amount \$2.6 million. Negative cash flow was recognized due to increased accounts receivable, inventories, prepaid expenses and revenue in excess of billings in the amount of \$6.6 million, \$4.7 million, \$1.5 million and \$0.6 million, respectively, and decreased accounts payable and accrued liabilities in the amounts of \$0.9 million, and \$5.1 million, respectively. Accounts receivable average days outstanding were 50 days for the period ended August 31, 2010, as compared to 53 days at February 28, 2010.

Cash used in investing activities during the six months ended August 31, 2010 was approximately \$109.4 million, with \$5.5 million related to capital improvements. The purchase of NGA was completed during the second quarter for a purchase price of \$132 million, net of cash acquired of \$28 million resulting in a net cash outlay of \$104 million.

A cash dividend was declared and paid for the three month period ended August 31, 2010 in the amount of \$3.1 million. For the six month ended August 31, 2010 cash dividends were declared and paid in the amount of \$6.2 million.

Our working capital was \$102.6 million at August 31, 2010, as compared to \$144.3 million at August 31, 2009.

On April 29, 2010, we entered into the Fifth Amendment to the Second Amended and Restated Credit Agreement by and among AZZ, Bank of America, N.A. ("Bank of America") and certain other lenders (including Bank of America) (the "Credit Agreement"), which replaced our Second Amended and Restated Revolving and Term Credit Agreement dated as of May 25, 2006. The Credit Agreement provides for an \$80 million revolving line of credit with one lender, Bank of America, N.A., maturing on May 25, 2014. This is an unsecured revolving credit facility, which we used to refinance outstanding borrowings and is used to provide for working capital needs, capital improvements, future cash dividend payments, future acquisitions, and letter of credit needs. At August 31, 2010, we had \$12 million outstanding under the revolving credit facility. Also, we had letters of credit outstanding in the amount of \$12.6 million, which left approximately \$55.4 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants, including a) maintaining a Minimum Consolidated Net Worth equal to at least the sum of \$182.3 million plus 50% of future net income after May 1, 2010; b) maintaining a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; and c) maintaining a Fixed Charge Coverage Ratio of at least 1.75:1.0. All capitalized terms are as defined in the Credit Agreement. The Credit Agreement maintains a maximum expenditure for fixed assets of \$30 million per fiscal year. We were in compliance at August 31, 2010 with all of our debt covenants.

The Credit Agreement provides for an applicable margin ranging from 1% to 1.75% over the Eurodollar Rate and Commitment Fees ranging from .20% to .30% depending on our Leverage Ratio (as defined in the Credit Agreement).

On March 31, 2008, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") pursuant to which the Company issued \$100 million aggregate principal amount of its 6.24% unsecured Senior Notes (the "Notes") due March 31, 2018 through a private placement (the "Note Offering"). Pursuant to the Note Purchase Agreement, the Company's payment obligations with respect to the Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement.



In connection with the Note Offering, we entered into an amendment to our Credit Agreement. The Amendment contains the consent of Bank of America to the Note Offering and amends the Credit Agreement to provide that the Note Offering will not constitute a default under the Credit Agreement.

The Notes provide for various financial covenants including a) maintaining a Minimum Consolidated Net Worth equal to at least the sum of \$116.9 million plus 50% of future net income; b) maintaining a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; c) maintaining a Fixed Charge Coverage Ratio of at least 2.0:1.0; and d) maintaining a Priority Indebtedness not to exceed 10% of Consolidated Net Worth. All capitalized terms are as defined in the Note Purchase Agreement. We were in compliance at August 31, 2010 with all of our debt covenants.

Our current ratio (current assets/current liabilities) was 3.08 to 1 at August 31, 2010, as compared to 3.67 to 1 at August 31, 2009. The long-term debt to shareholders' equity ratio was .47 to 1 at August 31, 2010.

We have not experienced a significant impact on our operations from increases in general inflation. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum and steel in the Electrical and Industrial Products Segment, and zinc and natural gas in the Galvanizing Services Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum and steel, when market conditions allow, and protective caps and fixed contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing process and through increases in prices where competitively feasible. Many economists predict increased inflation in coming years due to U.S. and international monetary policy, and there is no assurance that inflation will not impact our business in the future.

#### OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS

Other than operating leases discussed below, there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

#### CONTRACTUAL COMMITMENTS

##### Leases

We lease various facilities under non-cancelable operating leases with initial terms in excess of one year. The future minimum payments required under these operating leases as of August 31, 2010 are summarized in the table below under "Other."

##### Commodity pricing

In the Electrical and Industrial Products Segment, we have exposure to commodity pricing for copper, aluminum and steel. Because the Electrical and Industrial Products Segment does not commit contractually to minimum volumes, increases in price for these items are normally managed through escalation clauses in customer contracts, although during difficult market conditions these escalation clauses may not be obtainable.



In the Galvanizing Services Segment, we utilize contracts with our zinc suppliers that include protective caps and fixed cost contracts to guard against rising zinc prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. Management believes these agreements ensure adequate supplies and partially offset exposure to commodity price swings.

We have no contracted commitments for any other commodity items including steel, aluminum, natural gas, copper, zinc or any other commodity, except for those entered into under the normal course of business.

## Other

At August 31, 2010, we had outstanding letters of credit in the amount of \$12.6 million. These letters of credit are issued, in lieu of performance and bid bonds, to some of our customers to cover any potential warranty costs that the customer might incur. In addition, as of August 31, 2010, a warranty reserve in the amount of \$1.9 million has been established to offset any future warranty claims.

The following summarizes our operating leases, long-term debt and interest expense for the next five years.

| Fiscal Year                  | Operating<br>Leases | Long-Term<br>Debt | Interest on<br>Long-<br>Term Debt | Total      |
|------------------------------|---------------------|-------------------|-----------------------------------|------------|
| (\$ in thousands) Unaudited) |                     |                   |                                   |            |
| 2011                         | \$ 2,032            | \$ 0              | \$ 3,120                          | \$ 5,152   |
| 2012                         | 3,879               | 0                 | 6,240                             | 10,119     |
| 2013                         | 3,356               | 14,286            | 5,794                             | 23,436     |
| 2014                         | 2,939               | 14,286            | 4,903                             | 22,128     |
| 2015                         | 2,703               | 26,286            | 4,012                             | 33,001     |
| Thereafter                   | 11,585              | 57,142            | 7,131                             | 75,858     |
| Total                        | \$ 26,494           | \$ 112,000        | \$ 31,200                         | \$ 169,694 |

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements requires us to make estimates that affect the reported value of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and various other factors that we believe are reasonable under the circumstances. We continually evaluate the information used to make these estimates as business and economic conditions change. Accounting policies and estimates considered most critical are allowances for doubtful accounts, accruals for contingent liabilities, revenue recognition, impairment of long-lived assets, identifiable intangible assets and goodwill, accounting for income taxes and stock options and stock appreciation rights. Actual results may differ from these estimates under different assumptions or conditions. The development and selection of the critical accounting policies and the related disclosures below have been reviewed with the Audit Committee of the Board of Directors. More information regarding significant accounting policies can be found in Note 1 of the Notes to Condensed Consolidated Financial Statements in the 10-K.

**Allowance for Doubtful Accounts** - The carrying value of our accounts receivable is continually evaluated based on the likelihood of collection. An allowance is maintained for estimated losses resulting from our customers' inability to make required payments. The allowance is determined by historical experience of uncollected accounts, the level of

past due accounts, overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and by future expectations of conditions that might impact the collectability of accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

**Accruals for Contingent Liabilities** - The amounts we record for estimated claims, such as self insurance programs, warranty, environmental and other contingent liabilities, requires us to make judgments regarding the amount of expenses that will ultimately be incurred. We use past history and experience and other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Actual results may be different than what we estimate.

**Revenue Recognition** - Revenue is recognized for the Electrical and Industrial Products Segment upon transfer of title and risk to customers, or based upon the percentage of completion method of accounting for electrical products built to customer specifications under long term contracts. We typically recognize revenue for the Galvanizing Service Segment at completion of the service unless we specifically agree with the customer to hold its material for a predetermined period of time after the completion of the galvanizing process and, in that circumstance we invoice and recognize revenue upon shipment. Customer advanced payments presented in the balance sheet arise from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses can be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

**Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill** - We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events, circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets. An annual impairment test of goodwill is performed in the fourth quarter of each fiscal year. The test is calculated using the anticipated future cash flows after tax from our operating segments. Based on the present value of the future cash flows, we will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market, changes in economic conditions of these various markets, raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. As a result of our testing, we have concluded goodwill is not reasonably likely to be impaired.

**Accounting for Income Taxes** - We account for income taxes under the asset and liability method. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Developing our provision for income taxes requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. Our judgments and tax strategies are subject to audit by various taxing authorities.



We account for uncertainties in income taxes, which prescribes a recognition threshold and measurement attribute for recording in the financial statements uncertain tax positions taken or expected to be taken and provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements.

**Stock Options, Stock Appreciation Rights and Restricted Stock Units** - Our employees and directors are periodically granted stock options, stock appreciation rights or restricted stock units by the Compensation Committee of the Board of Directors. The compensation cost of all employee stock-based compensation awards is measured based on the grant-date fair value of those awards, and that cost is recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award).

The valuation of stock options and stock appreciation rights is complex in that there are a number of variables included in the calculation of the value of the award:

- Volatility of our stock price
- Expected term of the option
- Expected dividend yield
- Risk-free interest rate over the expected term
- Expected forfeitures

We have elected to use a Black-Scholes pricing model in the valuation of our stock options and stock appreciation rights.

These variables are developed using a combination of our internal data with respect to stock price volatility and exercise behavior of option holders and information from outside sources. The development of each of these variables requires a significant amount of judgment. Changes in the values of the above variables would result in different option valuations and, therefore, different amounts of compensation cost.

The restricted stock units are valued at the market price on the close of business for each grant date. Compensation expense is recorded ratably over the vesting period.

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

Market risk affecting our operations results primarily from changes in interest rates and commodity prices. We have no involvement with derivative financial instruments and are not a party to any leveraged derivatives.

In the Electrical and Industrial Products Segment, we have exposure to commodity pricing for copper, aluminum, and steel. Increases in price for these items are normally managed through escalation clauses in our customer's contracts, although during difficult market conditions customers may resist these escalation clauses. We manage our exposures to commodity prices, primarily zinc used in our Galvanizing Services Segment, by utilizing agreements with zinc suppliers that include protective caps and fixed contracts to guard against escalating commodity prices. We believe these agreements ensure adequate supplies and partially offset exposure to commodity price swings.

The Company has exposure to foreign currency exchange related to our Canadian operations.

We do not believe that a hypothetical change of 10% of the interest rate currently in effect or a change of 10% of commodity prices would have a significantly adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. However, there can be

no assurance that either interest rates or commodity prices will not change in excess of the 10% hypothetical amount, which could have an adverse effect on our results of operations, financial position, and cash flows if we are unable to pass along these increases to our customers.

Item 4. Controls and Procedures.

We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is (a) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely discussions regarding required disclosure and (b) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no significant changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

While we believe that our existing disclosure controls and procedures have been effective to accomplish their objectives, we intend to continue to examine, refine and document our disclosure controls and procedures and to monitor ongoing developments in this area. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in various suits and claims arising in the normal course of business. In management's opinion, the ultimate resolution of these matters will not have a material effect on our financial position or results of operations.

In addition, after we announced on March 31, 2010 our proposed acquisition of NGA, several lawsuits challenging the transaction were filed seeking to enjoin it or recover unspecified damages from us in respect thereof. On April 13, 2010, Morris Akerman, a purported NGA stockholder, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders, 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 NGA, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders, 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 NGA, filed a putative class action complaint in the County Court for Rogers County, Oklahoma on behalf of herself and all other similarly situated stockholders, 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 NGA, filed a putative class action complaint in the District Court for Tulsa County, Oklahoma on behalf of himself and all other similarly situated stockholders, captioned Devivo v. Morrow, et al., Case No. 2010-02551. On May 5, 2010, Carlos Dorta, a purported NGA stockholder, filed a putative class action complaint in the Delaware Court of Chancery on behalf of himself and all other similarly situated stockholders, captioned Dorta v. Morrow, et al., C.A. No. 5461. These complaints are collectively referred to herein as the "Stockholder Complaints."



The Stockholder Complaints purport to assert claims against NGA, the Board of Directors of NGA, AZZ and an indirect wholly owned subsidiary of AZZ, Big Kettle Merger Sub, Inc. (collectively, the “Defendants”) alleging breaches of fiduciary duty and aiding and abetting breaches of fiduciary duty in connection with the tender offer for the shares of NGA’s common stock. Among other things, the complaints alleged that NGA was being sold at an unfair price. Among other relief, the plaintiffs in each of the Stockholder Complaints sought an order enjoining Defendants from proceeding with the Merger Agreement, in addition to rescissory damages, restitution, and attorneys’ fees.

On June 7, 2010, the Defendants entered into a Memorandum of Understanding (the “Memorandum of Understanding”) with the plaintiffs in the Stockholder Complaints to settle all components of that litigation in all of the cases. Subject to approval by the Rogers County District Court in the Gibbs case noted above, the settlement includes (a) certification of a settlement class consisting of all record and beneficial holders of the Shares at any time from April 1, 2010 through and including the date of the closing of the merger of NGA with and into a subsidiary of AZZ; (b) certain supplemental disclosures contained in an Amendment No. 1 to the Schedule 14D-9 filed by NGA; (c) certain amendments to the Merger Agreement; (d) extension of the expiration date of the tender offer for the shares of NGA’s common stock from June 7, 2010 to June 14, 2010; (e) a release of all claims by class members against all Defendants arising from the tender offer and subsequent merger; (f) orders or judgments of dismissal with prejudice in all cases comprising the litigation; (g) an attorneys’ fee, including expenses for plaintiffs’ counsel, of \$500,000; and (h) further terms, all as detailed in the Memorandum of Understanding. The above summary of the Memorandum of Understanding is qualified in its entirety by reference to the Memorandum of Understanding, which has been filed as Exhibit (a)(5)(A) to the Schedule TO filed by AZZ with the SEC on April 1, 2010 in connection with the tender offer (as amended).

The Memorandum of Understanding provides that the Defendants each have denied, and continue to deny, that they have committed, attempted to commit, or aided and abetted the commission of, any violation of law or engaged in any of the wrongful acts alleged in the Stockholder Complaints, and expressly maintain that they have diligently and scrupulously complied with their fiduciary duties and other legal duties and are entering into the Memorandum of Understanding solely to eliminate the burden and expense of continued litigation. Notwithstanding their belief that the allegations are without merit, in order to eliminate the litigation burden and expense, the Defendants have concluded that it is desirable that the Stockholder Complaints be settled on the terms reflected in the Memorandum of Understanding, and NGA has made certain additional disclosures set forth in an Amendment No. 1 to the Schedule 14D-9 filed by NGA without agreeing that any of such disclosures are material and despite denying that the previous disclosures were inadequate.

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended February 28, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Reserved.

Item 5. Other Information. None.

Item 6. Exhibits.

Exhibits Required by Item 601 of Regulation S-K.



A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Index to Exhibits on page 25, which immediately precedes such exhibits.

#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AZZ incorporated  
(Registrant)

Date: 09/30/10

/s/ Dana Perry  
Dana Perry, Senior Vice President for Finance  
Principal Financial Officer

EXHIBIT INDEX

- 3(1) Articles of Incorporation, and all amendments thereto (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 1981).
- 3(2) Articles of Amendment to the Article of Incorporation of the Registrant dated June 30, 1988 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
- 3(3) Articles of Amendment to the Articles of Incorporation of the Registrant dated October 25, 1999 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
- 3(4) Articles of Amendment to the Articles of Incorporation dated July 17, 2000 (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant for the quarter ended August 31, 2000).
- 3(5) Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on November 27, 2007).
- 3(6) Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on April 3, 2009).
- 4 Form of Stock Certificate for the Company's \$1.00 par value Common Stock (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant August 31, 2000).
- 10(1) Second Amended and Restated Credit Agreement with Bank of America, N.A., dated May 25, 2006 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the Registrant on May 26, 2006).
- 10(2) First Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated February 28, 2007 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the Registrant on March 1, 2007).
- 10(3) Second Amendment and Consent to Second Amendment and Restated Credit Agreement dated March 31, 2008, by and between AZZ incorporated and Bank of America, N.A. (incorporated by reference to Exhibit 10(3) of the Form 8-K filed by the registrant on April 2, 2008).
- 10(4) Note Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and the purchasers listed therein (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the registrant on April 2, 2008).
- 10(5) AZZ incorporated Amended and Restated 2005 Long-Term Incentive Plan (incorporated by reference to Appendix A of the Proxy Statement for the 2008 Annual Shareholders Meeting).
- 10(6) AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Proxy Statement for the 2008 Annual Shareholders Meeting).
- 10(7) 1999 Independent Director Share Ownership Plan as Approved on January 19, 1999 and As Amended on September 22, 1999 (incorporated by reference to Exhibit 10(22) of the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 2001).
- 10(8) AZZ incorporated 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit A of the Proxy Statement for the 2001 Annual Shareholders Meeting).
- 10(9) AZZ incorporated 2003 Management Incentive Bonus Plan (incorporated by reference to Exhibit 10(20) to the Annual Report on Form 10-K filed by the registrant for the fiscal year ended February 28, 2002).

- 10(10) 2002 Plan for the Annual Grant of Stock Options to Independent Directors of AZZ incorporated (incorporated by reference to Exhibit 10(27) to the Quarterly Report Form 10-Q filed by the registrant for the quarter ended August 31, 2002).
- 10(11) AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Directors (incorporated by reference to Exhibit 10(53) to the quarterly report Form 10-Q filed by the Registrant for the quarter ended August 31, 2004).
- 10(12) AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Key Employees (incorporated by reference to Exhibit 10(54) to the quarterly report Form 10-Q filed by the Registrant for the quarter ended August 31, 2004).
- 10(13) AZZ incorporated 2005 Independent Director Compensation Plan (incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed by the Registrant on July 14, 2005).
- 10(14) Agreement and Plan of Merger by and among AZZ incorporated, Big Kettle Merger Sub, Inc. and North American Galvanizing and Coatings, Inc. dated as of March 31, 2010 (incorporated by reference to Exhibit 2(1) to the current report on Form 8-K filed by the registrant on April 1, 2010).
- 10(15) Stockholders Agreement by and among AZZ incorporated, Big Kettle Merger Sub, Inc. and certain stockholders of North American Galvanizing and Coatings, Inc. dated as of March 31, 2010 (incorporated by reference to Exhibit 2(2) to the current report on Form 8-K filed by the registrant on April 1, 2010).
- 10(16) Fifth Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated April 29, 2010 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the registrant on April 30, 2010).
- 31.1 Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated September 30, 2010. Filed Herewith.
- 31.2 Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated September 30, 2010. Filed Herewith.
- 32.1 Chief Executive Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated September 30, 2010. Filed Herewith.
- 32.2 Chief Financial Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated September 30, 2010. Filed Herewith.