

AMERON INTERNATIONAL CORP
Form 10-Q
September 27, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 28, 2005

or

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

For the transition period from _____ to _____

Commission File No. 1 - 9102

AMERON INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of

incorporation or organization)

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

(626) 683-4000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as indicated in Rule 12b-2 of the Exchange Act). Yes/x/ No / /

The number of shares outstanding of Common Stock, \$2.50 par value, was 8,551,580 on August 28, 2005. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Ameron International Corporation and Subsidiaries
Consolidated Statements of Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 29, 2005	August 29, 2004	2005	2004
Sales	\$ 193,047	\$ 155,413	\$ 508,064	\$ 435,599
Cost of Sales	(140,395)	(117,168)	(377,582)	(330,822)
Gross Profit	52,652	38,245	130,482	104,777
Selling, General and Administrative Expenses	(36,184)	(35,414)	(109,183)	(100,368)
Pension Plan Curtailment/Settlement	-	(12,817)	-	(12,817)
Other Income, Net	2,445	740	4,421	2,799
Income/(Loss) before Interest, Income Taxes and Equity in Earnings of Joint Venture	18,913	(9,246)	25,720	(5,619)
Interest Expense, Net	(1,492)	(1,193)	(3,980)	(4,462)
Income/(Loss) before Income Taxes and Equity in Earnings of Joint Venture	17,421	(10,439)	21,740	(10,081)
Provision for Income Taxes	(7,012)	(2,921)	(8,696)	(3,049)
Income/(Loss) before Equity in Earnings of Joint Venture	10,409	(13,360)	13,044	(13,130)
Equity in Earnings of Joint Venture, Net of Taxes	3,119	4,585	6,235	8,462
Net Income/(Loss)	\$ 13,528	\$ (8,775)	\$ 19,279	\$ (4,668)
Net Income/(Loss) per Share (Basic)	\$ 1.61	\$ (1.05)	\$ 2.30	\$ (.55)
Net Income/(Loss) per Share (Diluted)	\$ 1.58	\$ (1.05)	\$ 2.26	\$ (.55)
Weighted-Average Shares (Basic)	8,409,746	8,333,346	8,372,408	8,249,077
Weighted-Average Shares (Diluted)	8,571,628	8,333,346	8,535,834	8,249,077
Cash Dividends per Share	\$.20	\$.20	\$.60	\$.60

See accompanying notes to consolidated financial statements.

Ameron International Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

	August 28, 2005 (Unaudited)	November 30, 2004
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 20,432	\$ 30,124
Receivables, Less Allowances of \$7,959 in 2005 and \$7,984 in 2004	188,898	162,636
Inventories	106,265	90,297
Deferred Income Taxes	15,527	15,526
Prepaid Expenses and Other Current Assets	12,861	11,032
	-----	-----
Total Current Assets	343,983	309,615
Investments in Joint Ventures		
Equity Method	16,005	16,042
Cost Method	5,922	5,922
Property, Plant and Equipment		
Land	39,259	38,875
Buildings	88,594	87,159
Machinery and Equipment	286,111	286,769
Construction in Progress	13,481	8,812
	-----	-----
Total Property, Plant and Equipment at Cost	427,445	421,615
Accumulated Depreciation	(273,607)	(267,964)
	-----	-----
Total Property, Plant and Equipment, Net	153,838	153,651
Deferred Income Taxes	5,997	6,029
Intangible Assets, Net of Accumulated Amortization of \$10,320 in 2005 and \$10,550 in 2004	13,443	13,795
Other Assets	42,851	38,883
	-----	-----
Total Assets	\$ 582,039	\$ 543,937
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 18,333	\$ 18,333
Trade Payables	51,489	49,156
Accrued Liabilities	60,095	53,221
Income Taxes Payable	5,711	8,092
	-----	-----
Total Current Liabilities	135,628	128,802
Long-Term Debt, Less Current Portion	92,569	75,349
Other Long-Term Liabilities	63,819	60,619
	-----	-----
Total Liabilities	292,016	264,770
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 per Share, Authorized 24,000,000 Shares, Outstanding 8,551,580 Shares in 2005 and 8,431,471 in 2004, Net of Treasury Shares	28,084	27,745
Additional Paid-In Capital	24,885	21,903
Unearned Restricted Stock	(2,544)	(2,300)
Retained Earnings	315,203	301,013
Accumulated Other Comprehensive Loss	(26,330)	(20,420)
Treasury Stock (2,681,811 Shares in 2005 and 2,666,670 in 2004)	(49,275)	(48,774)
	-----	-----
Total Stockholders' Equity	290,023	279,167
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 582,039	\$ 543,937
	=====	=====

See accompanying notes to consolidated financial statements.

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Ameron International Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended	
	August 28, 2005	August 29, 2004
Cash Flows from Operating Activities		
Net Income/(Loss)	\$ 19,279	\$ (4,655)
Adjustments to Reconcile Net Income/(Loss) to Net Cash (Used in)/Provided by Operating Activities:		
Depreciation	14,127	13,772
Amortization	157	167
Provision for Deferred Income Taxes	189	46
Net Earnings and Distributions from Joint Ventures	73	75
Gain from Sale of Assets	(1,400)	(77)
Stock Compensation Expense	1,243	1,179
Changes in Operating Assets and Liabilities:		
Receivables	(29,484)	14,409
Inventories	(17,512)	5,510
Prepaid Expenses and Other Current Assets	(2,001)	(1,604)
Other Assets	(3,944)	4,020
Trade Payables	3,228	2,101
Accrued Liabilities and Income Taxes Payable	5,004	(1,323)
Other Long-Term Liabilities	3,036	(13,589)
	(8,005)	20,031
Cash Flows from Investing Activities		
Proceeds from Sale of Assets	2,389	284
Additions to Investments, Property, Plant and Equipment	(17,402)	(13,086)
	(15,013)	(12,802)
Cash Flows from Financing Activities		
Issuance of Debt	25,676	743
Repayment of Debt	(8,318)	(88)
Debt Issuance Costs	-	(473)
Dividends on Common Stock	(5,089)	(5,015)
Issuance of Common Stock	1,834	3,220
Change in Treasury Stock	(501)	(251)
	13,602	(1,864)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(276)	153
Net Change in Cash and Cash Equivalents	(9,692)	5,518
Cash and Cash Equivalents at Beginning of Period	30,124	20,390
Cash and Cash Equivalents at End of Period	\$ 20,432	\$ 25,908

See accompanying notes to consolidated financial statements.

Ameron International Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars In Thousands Except Per Share Data)
(Unaudited)

Note 1. Basis Of Presentation

Consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the consolidated financial position of Ameron International Corporation and all wholly-owned subsidiaries (the "Company" or "Ameron" or the "Registrant") as of August 28, 2005, and consolidated results of operations and cash flows for the three and nine months ended August 28, 2005 and August 29, 2004. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

For accounting consistency, the quarter ends on the Sunday closest to the end of the relevant calendar month. Ameron's fiscal year ends on November 30, regardless of the day of the week. Each quarter consists of approximately 13 weeks, but the number of days per quarter can change from period to period.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in Ameron's Annual Report on Form 10-K for the year ended November 30, 2004 ("2004 Annual Report").

Certain prior period balances have been reclassified to conform with the current period presentation.

Note 2. New Accounting Pronouncements

In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") regarding Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," discusses the effect of the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") enacted on December 8, 2003. FSP 106-1 considers the effect of the two new features introduced in the Act in determining accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit costs, which may serve to reduce a company's postretirement benefit costs. Companies may elect to defer accounting for this benefit or may attempt to reflect the best estimate of the impact of the Act on net periodic costs currently. The Company has chosen to defer accounting for the benefit until the FASB issues final accounting guidance due to various uncertainties related to this legislation and the appropriate accounting. The Company's measures of APBO and net periodic postretirement benefit costs as of and for the period ended August 28, 2005 do not reflect the effect of the Act.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payments." SFAS No. 123 (R) requires companies to measure all employee stock-based compensation awards using a fair-value method and record such expense in its consolidated financial statements. The adoption of SFAS No. 123 (R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS 123 (R) is effective for fiscal years beginning after June 15, 2005. The effect of the adoption of SFAS No. 123 (R) is expected to be comparable to the effect disclosed on a pro forma basis as a result of applying the current fair-value recognition provisions of SFAS No. 123 as shown in Note 13 herein.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions." The FASB issued this statement as a result of guidance provided in American Institute of Certified Public Accountants (AICPA) Statement of Position 04-2, "Accounting for Real Estate Time-Sharing Transactions," which applies to all real estate time-sharing transactions. SFAS No. 152 is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 152 is not expected to have a material impact on the Company's consolidated financial statements.

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Note 3. Inventories

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

	August 28, 2005	November 30, 2004
Finished Products	\$ 53,064	\$ 52,489
Materials and Supplies	28,093	23,809
Products in Process	25,108	13,999
	-----	-----
	\$ 106,265	\$ 90,297
	=====	=====

Note 4. Supplemental Disclosure of Cash Flow Information

	Nine Months Ended	
	August 28, 2005	August 29, 2004
Interest Paid	\$ 3,210	\$ 4,273
Income Taxes Paid	\$ 10,222	\$ 6,130

Note 5. Joint Ventures

Operating results of TAMCO, an investment which is accounted for under the equity method, were as follows:

	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 29, 2004
Net Sales	\$ 72,398	\$ 70,960	\$ 186,278	\$ 178,947
Gross Profit	\$ 13,939	\$ 18,798	\$ 30,118	\$ 36,459
Net Income	\$ 6,877	\$ 10,113	\$ 14,036	\$ 18,580

Investments in Ameron Saudi Arabia, Ltd. ("ASAL"), Bondstrand, Ltd. ("BL") and Oasis-Ameron, Ltd. ("OAL") are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures.

Earnings and dividends from the Company's joint ventures were as follows:

	August 28, 2005	August 29, 2004	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 29, 2004	2005	2004
Earnings from Joint Venture TAMCO	\$ 3,438	\$ 5,057	\$ 6,874	\$ 9,330	\$ 6,874	\$ 9,330
Dividends Received from Joint Ventures TAMCO	\$ 2,613	\$ 5,335	\$ 6,947	\$ 9,405	\$ 6,947	\$ 9,405
ASAL	-	-	-	-	-	-
BL	-	-	-	-	-	-
OAL	-	-	-	97	-	97

Earnings from ASAL, BL, and OAL, if any, are included in other income.

Note 6. Net Income Per Share

Basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods presented. Diluted net income per share is computed on the basis of the weighted-average number of common shares outstanding, including restricted shares, plus the effect of outstanding stock options, using the treasury stock method. All outstanding common stock equivalents, consisting of options to purchase 608,351 common shares, were dilutive for the three months and nine months ended August 28, 2005. For the three months ended August 29, 2004, options to purchase 45,000 common shares were anti-dilutive, while options to purchase 21,000 common shares were anti-dilutive for the nine months ended August 29, 2004. Following is a reconciliation of the weighted-average number of shares used in the computation of basic and diluted net income per share:

	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 29, 2004
Basic Average Common Shares Outstanding	8,409,746	8,333,346	8,372,408	8,249,076
Dilutive Effect of Common Stock Equivalents	161,882	-	163,426	-
Diluted Average Common Shares Outstanding	8,571,628	8,333,346	8,535,834	8,249,076

Note 7. Comprehensive Income/(Loss)

Comprehensive income/(loss) was as follows:

	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 29, 2004
Net Income/(Loss)	\$ 13,528	\$ (8,775)	\$ 19,279	\$ (4,655)
Foreign Currency Translation Adjustment	(1,887)	(870)	(5,944)	1,043
Comprehensive Income/(Loss) from Joint Venture	113	(96)	34	700
Adjustment to Minimum Pension Liabilities	-	1,269	-	1,269
Comprehensive Income/(Loss)	\$ 11,754	\$ (8,472)	\$ 13,369	\$ (1,643)

Note 8. Debt

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

	August 28, 2005	November 30, 2004
	-----	-----
Fixed-rate notes, bearing interest at 7.92%, payable in annual principal installments of \$8,333	\$ 16,667	\$ 16,667
Fixed-rate notes, bearing interest at 5.36%, payable in annual principal installments of \$10,000 beginning in 2005	50,000	50,000
Variable-rate industrial development bonds, payable in 2016 (2.77% at August 28, 2005)	7,200	7,200
Variable-rate industrial development bonds, payable in 2021 (2.77% at August 28, 2005)	8,500	8,500
Variable-rate bank revolving credit facilities - domestic, payable in 2008 (5.27% at August 28, 2005)	24,000	10,400
Variable-rate bank revolving credit facilities - foreign, payable in 2006 (4.7% at August 28, 2005)	4,535	915
	-----	-----
Total long-term debt	110,902	93,682
Less current portion	(18,333)	(18,333)
	-----	-----
Long-term debt, less current portion	\$ 92,569	\$ 75,349
	=====	=====

The Company maintains a \$100,000 revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until June 2008, when all borrowings under the Revolver must be repaid. The lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Revolver, the 5.36% term notes and the 7.92% term notes are collateralized by substantially all of the Company's assets. The industrial revenue bonds are supported by standby letters of credit that are issued under the Revolver. Certain note agreements contain provisions regarding the Company's ability to grant security interests or liens in association with other debt instruments. If the Company grants such a security interest or lien, then such notes will be collateralized equally and ratably as long as such other debt shall be collateralized.

Note 9. Segment Information

The Company provides certain information about operating segments in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, the Company has determined that it has four operating segments: Performance Coatings & Finishes, Fiberglass-Composite Pipe, Water Transmission, and Infrastructure Products. Each of these segments has a dedicated management team and is managed separately, primarily because of differences in products. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Adjustments to reflect inventory balances of certain steel inventories under the last-in, first-out ("LIFO") method, certain unusual legal costs and expenses, interest expense and income taxes are not allocated to the reportable segments. Following is information related to each operating segment included in, and in a manner consistent with, internal management reports:

	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 29, 2004
Sales				
Performance Coatings & Finishes	\$ 56,492	\$ 51,956	\$ 152,504	\$ 149,578
Fiberglass-Composite Pipe	37,394	30,017	96,159	88,893
Water Transmission	55,716	35,443	136,779	100,763
Infrastructure Products	43,618	38,140	122,947	96,839
Eliminations	(173)	(143)	(325)	(476)
Total Sales	\$ 193,047	\$ 155,413	\$ 508,064	\$ 435,597
Income Before Interest, Income Taxes and Equity in Earnings of Joint Venture				
Performance Coatings & Finishes	\$ 3,579	\$ 1,918	\$ 1,896	\$ 2,027
Fiberglass-Composite Pipe	6,166	5,400	16,121	15,573
Water Transmission	9,923	2,614	19,236	5,116
Infrastructure Products	6,222	4,865	15,198	8,977
Corporate & Unallocated	(6,977)	(24,043)	(26,731)	(37,306)
Total Income/(Loss) Before Interest, Income Taxes and Equity in Earnings of Joint Venture	\$ 18,913	\$ (9,246)	\$ 25,720	\$ (5,613)
Assets			August 28, 2005	November 30 2004
Performance Coatings & Finishes			\$ 172,407	\$ 173,807
Fiberglass-Composite Pipe			175,165	155,390
Water Transmission			149,320	120,921
Infrastructure Products			84,613	74,623
Corporate & Unallocated			201,837	198,797
Eliminations			(201,303)	(179,601)
Total Assets			\$ 582,039	\$ 543,937

Note 10. Commitments & Contingencies

The Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 28, 2005, the Company was a defendant in asbestos-related cases involving 9,855 claimants, compared to 10,378 claimants as of May

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29, 2005. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended August 28, 2005, there were 58 new claimants; dismissals and/or settlements involving 581 claimants; and no judgments. Net costs and expenses incurred by the Company during the quarter ended August 28, 2005 in connection with asbestos-related claims were \$166.

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The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The Company continues to vigorously defend all such lawsuits. As of August 28, 2005, the Company was a defendant in silica-related cases involving 8,042 claimants, compared to 8,188 claimants as of May 29, 2005. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended August 28, 2005, there were 116 new claimants; dismissals and/or settlements involving 262 claimants; and no judgments. Net costs and expenses incurred by the Company during the quarter ended August 28, 2005 in connection with silica-related claims were \$131.

In April 2003, the Company was served with a complaint in an action brought by J. Ray McDermott, Inc., J. Ray McDermott, S.A. and SparTEC, Inc. (collectively "McDermott") in the District Court of Harris County, Texas against the Company and two co-defendants, in connection with certain coatings supplied by the defendants in 2002 for an offshore production facility known as a SPAR being constructed by McDermott for Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc. (collectively "Dominion"). McDermott alleged that the Company's co-defendants improperly supplied coatings which contained lead and/or lead chromate and that as a result the Company and its co-defendants were liable to McDermott for all costs associated with removal and replacement of those coatings. The Company reached a settlement with McDermott in May 2005. In May 2003, Dominion brought a separate action against the Company in Civil District Court for the Parish of Orleans, Louisiana as owners of the SPAR seeking damages allegedly sustained by Dominion resulting from delays in McDermott's delivery of the SPAR caused by the removal and replacement of coatings containing lead and/or lead chromate. Dominion contends that the Company made certain misrepresentations and warranties to Dominion concerning the lead-free nature of those coatings. Dominion's petition as filed alleged a claim for damages in an unspecified amount; however, Dominion's economic expert subsequently estimated Dominion's damages at approximately \$128,000, a figure which the Company contests. This matter is in discovery and no trial date has yet been established. The Company believes that it has meritorious defenses to this action. Based upon the information available to it at this time, the Company is not in a position to evaluate the ultimate outcome of this matter; and no amounts have been accrued for a loss contingency related to this lawsuit. Legal costs and expenses related to these suits totaled \$41 in the three months and \$4,941 in the nine months ended August 28, 2005.

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

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

Note 11. Product Warranties and Guarantees

The Company's product warranty accrual reflects management's estimate of probable liability associated with product warranties. Management establishes product warranty accruals based on historical experience and other currently available information.

Changes in the product warranty accrual were as follows:

	Nine Months Ended	
	August 28, 2005	August 29, 2004
Balance, Beginning of Period	\$ 4,297	\$ 3,77
Payments	(2,737)	(2,0
Warranty Accruals During the Period	2,427	2,53
	\$ 3,987	\$ 4,24
Balance, End of Period	\$ 3,987	\$ 4,24

Note 12. Goodwill and Other Intangible Assets

Changes in the Company's carrying amount of goodwill by business segment were as follows:

Segment	November 30, 2004	Foreign Currency Translation Adjustments	August 28, 2005
Performance Coatings & Finishes	\$ 11,909	\$ (189)	\$ 11,720
Fiberglass-Composite Pipe	1,440	-	1,440
Infrastructure Products	201	-	201
Total	\$ 13,550	\$ (189)	\$ 13,361
	=====	=====	=====

The Company's intangible assets, other than goodwill, and related accumulated amortization consisted of the following:

	August 28, 2005		November 30, 2004	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulate Amortization
Trademarks	\$ 2,160	\$ (2,090)	\$ 2,227	\$ (2,127)
Non-Compete Agreements	2,105	(2,093)	2,105	(1,967)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
Total	\$ 6,407	\$ (6,325)	\$ 6,474	\$ (6,236)
	=====	=====	=====	=====

All of the Company's intangible assets, other than goodwill, are subject to amortization. Amortization expense for the three and nine months ended August 28, 2005 was \$52 and \$157, respectively. Amortization expense for the three and nine months ended August 29, 2004 was \$52 and \$167, respectively. At August 28, 2005, estimated future amortization expense was as follows: \$23 for the remaining three months of 2005, \$45 for 2006, and \$14 for 2007.

Note 13. Incentive Stock Compensation Plans

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its various stock option plans. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123:

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	Three Months Ended		Nine Months Ended	
	August 28, 2005	August 29, 2004	August 28, 2005	August 28, 2004
Reported Net Income/(Loss)	\$ 13,528	\$ (8,775)	\$ 19,279	\$ (4,650)
Add: Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax	636	539	746	780
Deduct: Stock-Based Employee Compensation Expense Determined under SFAS No. 123, Net of Tax	(316)	(244)	(804)	(650)
Pro Forma Net Income/(Loss)	\$ 13,848	\$ (8,480)	\$ 19,221	\$ (4,520)
Basic Net Income/(Loss) Per Share:				
As Reported	\$ 1.61	\$ (1.05)	\$ 2.30	\$ (.50)
Pro Forma	\$ 1.65	\$ (1.02)	\$ 2.30	\$ (.50)
Diluted Net Income/(Loss) Per Share:				
As Reported	\$ 1.58	\$ (1.05)	\$ 2.26	\$ (.50)
Pro Forma	\$ 1.62	\$ (1.02)	\$ 2.25	\$ (.50)

Note 14. Employee Benefit Plans

In June 2004, the Company terminated two executive benefit plans in consideration of ongoing costs, anticipated legislative restrictions on such programs, and a preference for executive benefit plans having more predictable costs. During the quarter ended August 29, 2004, the Company incurred a pretax expense of \$12,817 due to the termination of the plans and distributions to plan participants. The Company recorded this expense in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS No. 88 requires settlement accounting if the cost of all settlements, including lump-sum retirement benefits paid, in a year exceeds, or is expected to exceed, the total of the service and interest cost components of pension expense for the same period. Ameron had previously purchased life insurance policies to cover benefits under the plans. The cash surrender values of the policies (totaling approximately \$26,900 as of August 29, 2004) exceeded the amount of lump-sum payments (totaling approximately \$25,600) required to settle all plan obligations.

For the three and nine months ended August 28, 2005 and August 29, 2004, net pension and postretirement costs were comprised of the following:

	Pension Benefits				U.S. Postretirement	
	U.S. Plans		Non U.S. Plans		Health Care	
	2005	2004	2005	2004	2005	2004

	Three Months Ended August 28 and August 29,					

Service Cost	\$ 797	\$ 862	\$ 349	\$ 307	\$ 30	\$ 2
Interest Cost	2,484	2,723	484	450	51	5
Expected Return on Plan Assets	(2,815)	(2,629)	(362)	(339)	(8)	(
Amortization of Unrecognized						
Prior Service Cost	25	217	172	160	(4)	(
Amortization of Unrecognized						
Net Transition Obligation	-	-	-	-	18	1
Amortization of Accumulated Loss	1,144	1,538	-	-	15	1
Settlement Charge	-	10,901	-	-	-	-
Curtailment Loss	-	1,916	-	-	-	-
Net Periodic Cost	\$ 1,635	\$ 15,528	\$ 643	\$ 578	\$ 102	\$ 9
	=====					

	Nine Months Ended August 28 and August 29,					

	2005	2004	2005	2004	2005	2004

Service Cost	\$ 2,391	\$ 2,586	\$ 1,047	\$ 921	\$ 90	\$ 8
Interest Cost	7,452	8,169	1,452	1,350	153	15

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Expected Return on Plan Assets	(8,445)	(7,887)	(1,086)	(1,017)	(24)	(2)
Amortization of Unrecognized						
Prior Service Cost	75	651	516	480	(12)	(1)
Amortization of Unrecognized						
Net Transition Obligation	-	-	-	-	54	5
Amortization of Accumulated Loss	3,432	4,614	-	-	45	3
Settlement Charge	-	10,901	-	-	-	-
Curtailement Loss	-	1,916	-	-	-	-
Net Periodic Cost	\$ 4,905	\$ 20,950	\$ 1,929	\$ 1,734	\$ 306	\$ 28

The Company's policy is to make pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company contributed \$1,105, \$870 and \$870 to the U.S. pension plans in the first, second and third quarters of 2005, respectively; and the Company expects to contribute \$870 in the fourth quarter of 2005.

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

INTRODUCTION

Ameron International Corporation ("Ameron" or the "Company") is a multinational manufacturer of highly-engineered products and materials for the chemical, industrial, energy, transportation and infrastructure markets. Ameron is a leading producer of water transmission lines; high-performance coatings and finishes for the protection of metals and structures; fiberglass-composite pipe for transporting oil, chemicals and corrosive fluids and specialized materials and products used in infrastructure projects. The Company operates businesses in North America, South America, Europe, Australasia and Asia. The Company has four operating segments. The Performance Coatings & Finishes Group manufactures and markets high-performance industrial and marine coatings. The Fiberglass-Composite Pipe Group manufactures and markets filament-wound and molded composite fiberglass pipe, tubing, fittings and well screens. The Water Transmission Group manufactures and supplies concrete and steel pressure pipe, concrete non-pressure pipe, protective linings for pipe, and fabricated steel products. The Infrastructure Products Group manufactures and sells ready-mix concrete, sand and aggregates, concrete pipe and culverts, and concrete and steel lighting and traffic poles. The markets served by the Performance Coatings & Finishes Group and the Fiberglass-Composite Pipe Group are worldwide in scope. The Water Transmission Group serves primarily the western U.S. The Infrastructure Products Group's quarry and ready-mix business operates exclusively in Hawaii, and poles are sold throughout the U.S. Ameron also participates in several joint-venture companies, directly in the U.S. and Saudi Arabia, and indirectly in Kuwait and Egypt.

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2004 Annual Report. Reference should also be made to the financial statements included in this Form 10-Q for comparative consolidated balance sheets and statements of income and cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Liquidity and Capital Resources and Results of Operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The Company's significant accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements in the Company's 2004 Annual Report. Management believes the following accounting policies affect the more significant estimates used in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of Ameron International Corporation and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The functional currencies for the Company's foreign operations are the applicable local currencies. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss. The Company advances funds to certain foreign subsidiaries that are not expected to be repaid in the foreseeable future. Translation adjustments arising from these advances are also included in accumulated other comprehensive loss. The timing of repayments of intercompany advances could materially impact the Company's consolidated financial statements. Additionally, earnings of foreign subsidiaries are often reinvested outside the U.S. Unforeseen repatriation of such earnings could result in significant unrecognized U.S. tax liability. Gains or losses resulting from foreign currency transactions are included in other income.

Revenue for the Performance Coatings & Finishes, Fiberglass-Composite Pipe, and Infrastructure Products segments is recognized when risk of ownership and title pass, primarily at the time goods are shipped, provided that an agreement exists between the customer and the Company, the price is fixed or determinable and collection is reasonably assured. In limited circumstances within the Performance Coatings & Finishes Group, revenue recognition associated with shipment of coatings for marine dry dockings is delayed until product returns are processed. Revenue is recognized for the Water Transmission Group primarily under the percentage-of-completion method, typically based on completed units of production, since products are manufactured under enforceable and binding construction contracts, typically are designed for specific applications, are not interchangeable between projects, and are not manufactured for stock. In some cases, if products are manufactured for stock or are not related to specific construction contracts, revenue is recognized under the same criteria used by the other three segments. Revenue under the percentage-of-completion method is subject to a greater level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted periodically to reflect current expectations.

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The Company expenses environmental clean-up costs related to existing conditions resulting from past or current operations on a site-by-site basis. Liabilities and costs associated with these matters, as well as other pending litigation and asserted claims arising in the ordinary course of business, require estimates of future costs and judgments based on the knowledge and experience of management and its legal counsel. When estimates of the Company's exposure can be reasonably estimated and are probable, liabilities and expenses are recorded. The ultimate resolution of any such exposure to the Company may differ due to subsequent developments.

Inventories are stated at the lower of cost or market with cost determined principally on the first-in, first-out ("FIFO") method. Certain steel inventories used by the Water Transmission Group are valued using the last-in, first-out ("LIFO") method. Significant changes in steel levels or costs could materially impact the Company's financial statements. Reserves are established for excess, obsolete and rework inventories based on age, estimates of salability and forecasted future demand. Management records an allowance for doubtful accounts receivable based on historical experience and expected trends. A significant reduction in demand or significant worsening of customer credit quality could materially impact the Company's consolidated financial statements. Property, plant and equipment is stated on the basis of cost and depreciated principally on a straight-line method based on the estimated useful lives of the related assets, generally three to 40 years.

Investments in unconsolidated joint ventures or affiliates ("joint ventures") over which the Company has significant influence are accounted for under the equity method of accounting, whereby the investment is carried at the cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition. Investments in joint ventures over which the Company does not have the ability to exert significant influence over the investee's operating and financing activities are accounted for under the cost method of accounting. The Company's investment in TAMCO is accounted for under the equity method. Investments in Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. are accounted for under the cost method due to management's current assessment of the Company's influence over these joint ventures.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the estimated future, undiscounted cash flows from the use of an asset are less than its carrying value, a write-down is recorded to reduce the related assets to estimated fair value. The Company also reviews intangible assets for impairment at least annually, based on the estimated future, discounted cash flows associated with such assets. Actual cash flows may differ significantly from estimated cash flows. Additionally, current estimates of future cash flows may differ from subsequent estimates of future cash flows. Changes in estimated or actual cash flows could materially impact the Company's consolidated financial statements.

The Company is self insured for a portion of the losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using historical experience and certain actuarial assumptions followed in the insurance industry. The estimate of self insurance liability includes an estimate of incurred but not reported claims, based on data compiled from historical experience. Actual experience could differ significantly from these estimates and could materially impact the Company's consolidated financial statements.

The Company follows the guidance of Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," when accounting for pension and other postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets that are controlled and invested by third-party fiduciaries. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. Such delayed recognition provides a gradual recognition of benefit obligations and investment performance over the working lives of the employees who benefit under the plans, based on various assumptions. Assumed discount rates are used to calculate the present values of benefit payments which are projected to be made in the future, including projections of increases in employees' annual compensation and health care costs. Management also projects the future return on invested assets based principally on prior performance. These projected returns reduce the net benefit costs the Company records in the current period. Actual results could vary significantly from projected results, and such deviation could materially impact the Company's consolidated financial statements. Management consults with its actuaries when determining these assumptions. Unforecasted program changes, including termination, freezing of benefits or acceleration of benefits, could result in an immediate recognition of unrecognized benefit obligations and such recognition could materially impact the Company's consolidated financial statements.

Management incentive compensation is accrued based on current estimates of the Company's ability to achieve short-term and long-term performance targets.

Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. Quarterly income taxes are estimated based on the mix of income by jurisdiction forecasted for the full fiscal year. The Company believes that it has adequately provided for tax-related matters. The Company is subject to examination by taxing authorities in various jurisdictions. Matters raised upon audit may involve substantial amounts and could be material.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended August 28, 2005, the Company's operating activities used cash of \$8.0 million, compared to generating \$20.0 million in the nine months ended August 29, 2004. Operating cash flow was lower in 2005 as higher net income was offset by increased inventories and receivables. Other long-term liabilities declined in 2004 due to the payments associated with the termination of two executive benefits programs in the third quarter ended August 29, 2004. Inventories and receivables grew in large part due to the level of sales and backlog of orders within the Water Transmission Group, and the increased level of activity in the Fiberglass-Composite Pipe and Infrastructure Products Groups.

Net cash used in investing activities totaled \$15.0 million during the nine months ended August 28, 2005, compared to \$12.8 million in the nine months ended August 29, 2004. In 2005, net cash used in investing activities consisted of proceeds from the sale of assets of \$2.4 million, offset by capital expenditures of \$17.4 million. Asset sales included the sale for \$1.9 million of excess land held by the Company's European coatings business. Capital expenditures were primarily for normal replacement and upgrades of machinery and equipment and for a new fiberglass pipe plant in Malaysia. During the year ending November 30, 2005, the Company anticipates spending between \$20 and \$25 million on capital expenditures. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash provided by financing activities totaled \$13.6 million during the nine months ended August 28, 2005, compared to \$1.9 million used in the nine months ended August 29, 2004. The net cash provided by financing activities in 2005 consisted of net borrowings of \$17.4 million, common stock dividends of \$5.1 million, and treasury stock purchases of \$.5 million. Issuance of common stock related to exercised stock options generated cash of \$1.8 million in 2005.

The Company utilizes a \$100 million revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates based on specified margins over money market rates, at any time until June 2008, when all borrowings under the Revolver must be repaid.

The Company's lending agreements contain various restrictive covenants, including the requirement to maintain specified amounts of net worth and restrictions on cash dividends, borrowings, liens, investments and guarantees. The Company is required to maintain consolidated net worth of \$181.4 million plus 50% of net income and 75% of the proceeds from any equity issued after January 24, 2003. The Company's consolidated net worth exceeded the covenant amount by \$76.6 million as of August 28, 2005. The Company is required to maintain a consolidated leverage ratio of consolidated funded indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") of no more than 2.5 times. As of August 28, 2005, the Company maintained a debt leverage ratio of 1.9 times EBITDA. Lending agreements require that the Company maintain qualified consolidated tangible assets at least equal to the outstanding secured funded indebtedness. As of August 28, 2005, qualifying tangible assets equaled 2.0 times funded indebtedness. Under the most restrictive fixed charge coverage ratio, the sum of EBITDA and rental expense less cash taxes must be at least 1.5 times the sum of interest expense, rental expense, dividends and scheduled funded debt payments. As of August 28, 2005, the Company maintained a ratio of 2.2 times.

Cash and cash equivalents at August 28, 2005 totaled \$20.4 million, a decrease of \$9.7 million from November 30, 2004. At August 28, 2005, the Company had total debt outstanding of \$110.9 million and approximately \$90.7 million in unused committed and uncommitted credit lines available from foreign and domestic banks. The Company's highest borrowing and the average borrowing levels during 2005 were \$127.6 million and \$107.7 million, respectively.

Management believes that cash flow from operations and current cash balances, together with currently available lines of credit, will be sufficient to meet operating requirements in 2005. Cash available from operations could be affected by any general economic downturn or any decline or adverse changes in the Company's business, such as a loss of

customers or significant raw material price increases. Management does not believe it likely that business or economic conditions will worsen or that costs will increase sufficiently to impact short-term liquidity.

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The Company's contractual obligations and commercial commitments at August 28, 2005 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Long-Term Debt (a)	\$110,902	\$ 18,333	\$ 28,334	\$48,535	\$15,700
Operating Leases	42,318	4,496	7,850	7,573	22,399
Purchase Obligation (b)	1,833	1,833	-	-	-
Total Contractual Obligations (c)	\$155,053	\$ 24,662	\$ 36,184	\$56,108	\$38,099

Commercial Commitments	Commitments Expiring Per Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Standby Letters of Credit (d)	\$ 2,302	\$ 2,302	\$ -	\$ -	\$ -
Total Commercial Commitments (c)	\$ 2,302	\$ 2,302	\$ -	\$ -	\$ -

(a) Included in long-term debt is \$4,535 outstanding under a revolving credit facility, supported by the Revolver due in 2008.

(b) Obligation to purchase sand used in the Company's ready-mix operations in Hawaii.

(c) The Company has no capitalized lease obligations, guarantees, or standby repurchase obligations.

(d) Not included are standby letters of credit totaling \$16,067 supporting industrial development bonds with principal of \$15,700. The principal amount of the industrial development bonds is included in long-term debt.

RESULTS OF OPERATIONS

General

Net income totaled \$13.5 million, or \$1.58 per diluted share, on sales of \$193.0 million for the quarter ended August 28, 2005, compared to net loss of \$8.8 million, or \$1.05 per diluted share, on sales of \$155.4 million for the similar period in 2004. All operating segments had higher sales with the largest increase by the Water Transmission Group. The Water Transmission Group benefited from two large water and sewer projects in California. Segment operating profits increased \$11.1 million in the third quarter of 2005, compared to the third quarter of 2004, as all operating segments had higher segment income. The loss in 2004 was primarily caused by the costs related to the curtailment and settlement of the executive benefit plans, totaling \$12.8 million. Equity in earnings of TAMCO, Ameron's 50%-owned steel venture in California, declined \$1.5 million, compared to the third quarter of 2004.

Net income totaled \$19.3 million, or \$2.26 per diluted share, on sales of \$508.1 million for the nine months ended August 28, 2005. The Company had a net loss of \$4.7 million, or \$.56 per diluted share, on sales of \$435.6 million for the nine months ended August 29, 2004. All operating segments had higher sales. The Water Transmission and Infrastructure Products Groups had higher sales and profits due in large part to disruption caused by labor disputes in 2004. The Fiberglass-Composite Pipe Group had higher sales and profits primarily due to the demand for onshore oilfield piping and for marine piping supplied by Asian operations. The Performance Coatings & Finishes Group had lower earnings in spite of higher sales due to market conditions. Year-to-date net income was constrained by unusual legal costs in the second quarter and lower earnings from TAMCO. The loss in 2004 was primarily due to the curtailment and settlement costs associated with termination of the benefit plans.

Sales

Sales increased \$37.6 million in the third quarter of 2005, compared to the similar period in 2004. Year-to-date sales

increased \$72.5 million in 2005, compared to 2004. Third-quarter and year-to-date sales of all operating segments were higher in 2005 due to improved demand and the impact of changing currencies on foreign operations. Additionally, sales in the first half of 2004 were affected by the strikes in California and Hawaii that adversely impacted the Water Transmission and Infrastructure Product Groups.

Performance Coatings & Finishes' sales increased \$4.5 million in the third quarter and \$2.9 million in the nine months ended August 28, 2005, compared to the similar periods in 2004. Third-quarter sales rose on higher demand, while year-to-date sales increased due to the appreciation of foreign currencies. In the first half of 2005, shipments to heavy-duty industrial and marine markets in the U.S. and Europe were flat, while sales of lighter-duty product finishes in Australia and New Zealand grew. The relative strength of the euro and the British pound constrained exports of Ameron's European operations and sales of marine coatings declined primarily due to the loss in the middle of 2004 of a contract to supply coatings to the U.S. Navy. Sales of heavy-duty industrial and marine coatings in the U.S. increased in the third quarter of 2005, compared to the third quarter of 2004. Corresponding sales of lighter-duty product finishes in Australia and New Zealand also increased. Ameron's operations were only minimally affected by Hurricane Katrina. There are signs of increasing demand for industrial coatings in the U.S. Additionally, the Performance Coatings & Finishes Group is expected to participate in the rebuilding of chemical, oil and industrial infrastructure throughout the U.S. Gulf Coast.

Fiberglass-Composite Pipe's sales increased \$7.4 million in the third quarter and \$7.3 million in the nine months ended August 28, 2005, compared to the similar periods in the prior year. Sales increased due to the demand for onshore oilfield piping and for marine piping supplied by Asian operations. Sales of piping supplied by Ameron's operations in Europe declined due to market conditions and the impact of the appreciated euro on exports into the Middle East and the former Soviet Union. The backlog for Fiberglass-Composite Pipe remains robust. The strength of demand for oilfield and marine piping continues to be driven by high oil prices and the high cost of steel piping, the principal substitute for fiberglass pipe. The outlook for the Fiberglass-Composite Pipe Group remains positive.

The Water Transmission Group's sales increased \$20.3 million in the third quarter and \$36.0 million in the nine months ended August 28, 2005, compared to the similar periods in 2004. In 2004, the Group's operations were affected in the second quarter by the lingering impact of strikes in the first quarter. Prior year's results were also lower due to weak market conditions and lower-margin bridge work. Revenue is recognized in the Water Transmission Group primarily under the percentage of completion method and is subject to a certain level of estimation, which affects the timing of revenue recognition, costs and profits. Estimates are reviewed on a consistent basis and are adjusted when actual results are expected to significantly differ from those estimates. The Water Transmission Group entered 2005 with a healthy backlog based on two large projects in California. Production of the backlog was the main driver of quarterly and year-to-date results. Market conditions remain mixed due to fiscal constraints and a cyclical downturn in water infrastructure spending in the Company's markets. However, based on the current backlog, the Group should continue to perform well for all of 2005.

Infrastructure Products' sales increased \$5.5 million in the third quarter and \$26.1 million in the nine months ended August 28, 2005, compared to the similar periods in 2004. Hawaiian sales were lower due to a labor dispute at the Company's principal aggregates and ready-mix concrete operations on Oahu which lasted from February to April 2004. Sales of steel and concrete poles rose due to the continued strength of housing construction throughout the U.S. Additionally, Ameron benefited from a major pole-replacement program sponsored by a utility in Southern California. Hawaiian quarry and ready-mix operations benefited from strong construction levels in Hawaii. The forecast for the Infrastructure Products Group remains favorable due to the level of construction throughout the U.S., spurred by low interest rates.

Gross Profit

Gross profit in the third quarter of 2005 was \$52.7 million, or 27.3% of sales, compared to \$38.2 million, or 24.6% of sales, in the third quarter of 2004. Gross profit in the nine months ended August 28, 2005 was \$130.5 million, or 25.7% of sales compared to \$104.8 million and 24.1% in the nine months ended August 29, 2004. Gross profit increased \$14.4 million in the third quarter and \$25.7 million in the nine months ended August 28, 2005 due to higher sales and higher margins. Margins improved due to the mix of projects and better plant utilization.

Gross profit of the Performance Coatings & Finishes Group increased \$.2 million in the third quarter and decreased \$1.2 million in the nine months ended August 28, 2005, compared to the similar periods in 2004, on lower profit margins. Profit margins were adversely impacted by higher raw material costs and underutilization of plant capacity. Additionally, margins on sales from operations in Europe into dollar-based markets in the Middle East and the former Soviet Union were impacted by the weaker U.S. dollar.

Fiberglass-Composite Pipe Group's gross profit increased \$1.0 million in the third quarter and decreased \$.3 million in the nine months ended August 28, 2005, compared to 2004. Profit margins declined in 2005 primarily due to a change in product mix, higher raw material costs and lower plant utilization in Europe.

Water Transmission Group's gross profit increased \$8.9 million in the third quarter and \$17.6 million in the nine months ended August 28, 2005, compared to 2004. The increases were due primarily to higher sales, improved plant utilization and a favorable change in product mix. Profits were impacted in 2004 by inefficient plant utilization caused by the strikes, higher workers' compensation costs and weak market conditions.

Gross profit of the Infrastructure Products Group increased \$1.6 million in the third quarter and \$6.8 million in the nine months ended August 28, 2005, compared to the same periods in 2004. The increases were due primarily to higher sales and improved plant utilization in Hawaii, which was impacted by the labor dispute in 2004.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses totaled \$36.2 million, or 18.7% of sales, in the third quarter of 2005, compared to \$35.4 million, or 22.8% of sales, in the third quarter of 2004. The \$.8 million increase included higher legal fees of \$.8 million, higher marketing expenses of \$.7 million, higher maintenance costs of \$.2 million and higher incentive and stock compensation expenses of \$.5 million, offset by lower self-insurance expenses of \$1.4 million.

For the nine months ended August 28, 2005, SG&A totaled \$109.2 million, or 21.5% of sales. Corresponding expenses totaled \$100.4 million, or 23.0% of sales, in 2004. The \$8.8 million increase included higher incentive compensation expense of \$1.4 million, higher severance costs of \$1.6 million, higher maintenance costs of \$.2 million and higher legal costs of \$7.6 million, offset by lower pension expense of \$2.7 million and lower self-insurance expenses of \$.9 million. Additionally, the appreciation of foreign currencies increased SG&A of foreign operations by approximately \$1.6 million.

Pension Plan Curtailment/Settlement

In June 2004, the Company terminated two executive benefit plans. The Company incurred a pretax expense of \$12.8 million due to the termination of the plans and distributions to plan participants. The Company recorded this expense in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." SFAS No. 88 requires settlement accounting if the cost of all settlements, including lump-sum retirement benefits paid, in a year exceeds, or is expected to exceed, the total of the service and interest cost components of pension expense for the same period.

Other Income

Other income increased from \$.7 million in the third quarter of 2004 to \$2.4 million in the third quarter of 2005. Other income increased from \$2.8 million in the nine months ended August 29, 2004 to \$4.4 million in 2005. Other income included royalties and fees from licensees, foreign currency transaction losses, and other miscellaneous income. Also included in other income was \$1.4 million from the third-quarter sale of vacant property held by the Company's coatings business, located at Huthwaite, United Kingdom.

Interest

Net interest expense totaled \$1.5 million in the third quarter of 2005, compared to \$1.2 million in the third quarter of 2004. Net interest expense was \$4.0 million in the nine months ended August 28, 2005, compared to \$4.5 million in the nine months ended August 29, 2004. The increase in the third quarter was due to higher borrowings. The decrease for the nine months reflected a higher usage of the lower-rate Revolver following repayment of a portion of the Company's fixed-rate debt.

Provision for Income Taxes

Income taxes increased to \$7.0 million in the third quarter of 2005 from \$2.9 million in the third quarter of 2004. Income taxes increased to \$8.7 million in the nine months ended August 28, 2005, compared to \$3.0 million in the comparable period of 2004. The effective tax rate increased to 40% in 2005. Taxes were recorded in 2004, even with a pretax loss, due to IRS limitations on the deductibility of a portion of the settlements associated with the executive benefit plan terminations. The effective tax rate was higher in 2005 due to higher forecasted full-year earnings from

domestic operations and the anticipated mix of domestic and foreign earnings. Income from certain foreign operations and joint ventures is taxed at rates that are lower than the U.S. statutory tax rates.

Equity in Earnings of Joint Venture, Net of Taxes

Equity in earnings of joint venture decreased to \$3.1 million in the third quarter of 2005 compared to \$4.6 million in 2004. Equity income decreased to \$6.2 million in the nine months ended August 28, 2005, compared to \$8.5 million in 2004. Equity income decreased due to TAMCO, Ameron's 50%-owned mini-mill in California. TAMCO's third quarter profits declined, as greater shipments were offset by higher scrap and energy costs. TAMCO benefited throughout 2004 from strong demand for rebar and record worldwide steel prices. Steel prices moderated in 2005. Lower pricing and higher costs will likely preclude TAMCO from reaching record levels of 2004.

Item 3. Quantitative and Qualitative Market Risk Disclosure

No material changes have occurred in the quantitative and qualitative market risk disclosure of the Company as presented in Ameron's 2004 Annual Report.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of August 28, 2005 pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to August 28, 2005.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Any of the above statements that refer to the Company's forecasted, estimated or anticipated future results are forward-looking and reflect the Company's current analysis of existing trends and information. Actual results may differ from current expectations based on a number of factors affecting Ameron's businesses, including competitive conditions and changing market conditions. Matters affecting the economy generally, including the state of economies worldwide, can affect the Company's results. These forward-looking statements represent the Company's judgment only as of the date of this report. Since actual results could differ materially, the reader is cautioned not to rely on these forward-looking statements. Moreover, the Company disclaims any intent or obligation to update these forward looking statements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is one of numerous defendants in various asbestos-related personal injury lawsuits. These cases generally seek unspecified damages for asbestos-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is generally not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5, "Accounting for Contingencies." The Company continues to vigorously defend all such lawsuits. As of August 28, 2005, the Company was a defendant in asbestos-related cases involving 9,855 claimants, compared to 10,378 claimants as of May 29, 2005. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended August 28, 2005, there were 58 new claimants; dismissals and/or settlements involving 581 claimants; and no judgments. Net costs and expenses incurred by the Company during the quarter ended August 28, 2005 in connection with asbestos-related claims were less than \$.2 million.

The Company is one of numerous defendants in various silica-related personal injury lawsuits. These cases generally seek unspecified damages for silica-related diseases based on alleged exposure to products previously manufactured by the Company and others, and at this time the Company is not aware of the extent of injuries allegedly suffered by the individuals or the facts supporting the claim that injuries were caused by the Company's products. Based upon the information available to it at this time, the Company is not in a position to evaluate its potential exposure, if any, as a result of such claims. Hence, no amounts have been accrued for loss contingencies related to these lawsuits in accordance with SFAS No. 5. The Company continues to vigorously defend all such lawsuits. As of August 28, 2005, the Company was a defendant in silica-related cases involving 8,042 claimants, compared to 8,188 claimants as of May 29, 2005. The Company is not in a position to estimate the number of additional claims that may be filed against it in the future. For the quarter ended August 28, 2005, there were 116 new claimants; dismissals and/or settlements involving 262 claimants; and no judgments. Net costs and expenses incurred by the Company during the quarter ended August 28, 2005 in connection with silica-related claims were less than \$.2 million.

Item 2. Changes in Securities

Terms of lending agreements place restrictions on cash dividends, stock repurchases, borrowings, investments and guarantees. Under the most restrictive provisions of these agreements, approximately \$11.0 million of consolidated retained earnings were not restricted at August 28, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

Period

**(a)
Total
Number of
Shares (or
Units)
Purchased**

**(b)
Average
Price
Paid per
Share (or
Unit**

**(c)
Number of
Shares (or
Units)
Purchased as
Part of
Publicly
Announced
Plans or
Programs**

**(d)
Maximum
Number (or
Approximate**

**Dollar Value) of
Shares (or
Units) that
May Yet Be
Purchased under
the Plans or
Programs ***

5/30/05 thru 6/26/05

-

N/A

-

N/A

6/27/05 thru 7/31/05

-

N/A

-

N/A

8/1/05 thru 8/28/05

-

N/A

-

N/A

*Shares may be repurchased by the Company to pay taxes applicable to the vesting of employee's restricted stock. However, because neither the amount of such taxes nor the share price on the date of such repurchases are known at this time, it is not possible to estimate the numbers of such shares that would be so repurchased.

Item 6. Exhibit and Reports of Form 8-K

A Form 8-K was filed on June 23, 2005 to report the changes to the compensation payable to th