AMERON INTERNATIONAL CORP
Form 10-Q
April 06, 2007

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 February 25, 2007

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 Number 1-9102

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

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

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

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨

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

The number of outstanding shares of Common Stock, $2.50 par value, was 9,109,678 on February 25, 2007. No other class of Common Stock exists.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

For the Quarter Ended February 25, 2007

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended			
(Dollars in thousands, except per share data)		**February 25, 2007**		**March 5, 2006**
Sales	**$**	**120,355**	$	125,972
Cost of sales		**(95,035)**		(97,390)
Gross profit		**25,320**		28,582
Selling, general and administrative expenses		**(21,500)**		(22,964)
Other income, net		**1,018**		12
Income from continuing operations before interest, income taxes and equity in earnings of joint venture		**4,838**		5,630
Interest income/(expense), net		**366**		(950)
Income from continuing operations before income taxes and equity in earnings of joint venture		**5,204**		4,680
Provision for income taxes		**(1,920)**		(1,685)
Income from continuing operations before equity in earnings of joint venture		**3,284**		2,995
Equity in earnings of joint venture, net of taxes		**5,028**		780
Income from continuing operations		**8,312**		3,775
Income/(loss) from discontinued operations, net of taxes		**156**		(164)
Net income	**$**	**8,468**	$	3,611
Basic earnings per share:				
Income from continuing operations	**$**	**.92**	$	.44
Income/(loss) from discontinued operations, net of taxes		**.02**		(.02)
Net income	**$**	**.94**	$	.42
Diluted earnings per share:				
Income from continuing operations	**$**	**.92**	$	.43
Income/(loss) from discontinued operations, net of taxes		**.02**		(.02)
Net income	**$**	**.94**	$	.41
Weighted-average shares (basic)		**8,994,075**		8,614,269
Weighted-average shares (diluted)		**9,050,525**		8,786,041
Cash dividends per share	**$**	**.20**	$	.20

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - ASSETS (UNAUDITED)

(Dollars in thousands)	February 25, 2007	November 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 127,720**	$ 139,479
Receivables, less allowances of $5,139 in 2007 and $4,912 in 2006	**150,627**	160,173
Inventories	**104,323**	77,134
Deferred income taxes	**23,861**	23,861
Prepaid expenses and other current assets	**9,485**	15,921
Total current assets	**416,016**	416,568
Investments in joint ventures		
Equity method	**20,169**	14,501
Cost method	**3,784**	3,784
Property, plant and equipment		
Land	**33,122**	33,327
Buildings	**58,515**	57,434
Machinery and equipment	**264,503**	261,538
Construction in progress	**26,910**	20,657
Total property, plant and equipment at cost	**383,050**	372,956
Accumulated depreciation	**(242,258)**	(238,486)
Total property, plant and equipment, net	**140,792**	134,470
Goodwill and intangible assets, net of accumulated amortization of $3,023 in 2007 and $3,017 in 2006	**2,137**	2,143
Other assets	**63,315**	63,198
Total assets	**$ 646,213**	$ 634,664

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

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

(Dollars in thousands, except per share data)	**February 25, 2007**	**November 30, 2006**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	**$ 10,000**	$ 10,000
Trade payables	**53,467**	45,650
Accrued liabilities	**74,106**	68,970
Income taxes payable	**3,957**	11,481
Total current liabilities	**141,530**	136,101
Long-term debt, less current portion	**71,263**	72,525
Other long-term liabilities	**60,423**	62,813
Total liabilities	**273,216**	271,439
Commitments and contingencies		
Stockholders' equity		
Common stock, par value $2.50 per share, authorized 24,000,000 shares, outstanding 9,109,678 shares in 2007 and 9,075,094 shares in 2006, net of treasury shares	**29,542**	29,431
Additional paid-in capital	**42,233**	39,500
Retained earnings	**378,546**	371,894
Accumulated other comprehensive loss	**(25,814)**	(27,232)
Treasury stock (2,707,114 shares in 2007 and 2,697,148 shares in 2006)	**(51,510)**	(50,368)
Total stockholders' equity	**372,997**	363,225
Total liabilities and stockholders' equity	**$ 646,213**	$ 634,664

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended	
(Dollars in thousands)	**February 25, 2007**	**March 5, 2006**
OPERATING ACTIVITIES		
Net income	**$ 8,468**	$ 3,611
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation	**3,739**	4,646
Amortization	**6**	51
Net earnings and distributions from joint ventures	**(5,668)**	(596)
Gain from sale of property, plant and equipment	**(19)**	(46)
Stock compensation expense	**484**	1,366
Other	**2**	(99)
Changes in operating assets and liabilities:		
Receivables, net	**9,816**	3,278
Inventories	**(26,515)**	(5,939)
Prepaid expenses and other current assets	**6,492**	(759)
Other assets	**(105)**	741
Trade payables	**7,730**	(1,110)
Accrued liabilities and income taxes payable	**(2,538)**	(3,788)
Other long-term liabilities	**(2,422)**	58
Net cash (used in)/provided by operating activities	**(530)**	1,414
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**200**	154
Additions to property, plant and equipment	**(9,670)**	(4,345)
Net cash used in investing activities	**(9,470)**	(4,191)
FINANCING ACTIVITIES		
Issuance of debt	**-**	3,888
Repayment of debt	**(1,417)**	(22)
Dividends on common stock	**(1,816)**	(1,749)
Issuance of common stock	**405**	213
Excess tax benefits related to stock-based compensation	**1,955**	-
Purchase of treasury stock	**(1,142)**	(710)
Net cash (used in)/provided by financing activities	**(2,015)**	1,620
Effect of exchange rate changes on cash and cash equivalents	**256**	170
Net change in cash and cash equivalents	**(11,759)**	(987)
Cash and cash equivalents at beginning of period	**139,479**	44,671
Cash and cash equivalents at end of period	**$ 127,720**	$ 43,684

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

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Consolidated financial statements for the interim periods included herein are unaudited; however, 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 subsidiaries (the "Company" or "Ameron" or the "Registrant") as of February 25, 2007, and consolidated results of operations and cash flows for the three months ended February 25, 2007. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

For accounting consistency, the quarter typically ends on the Sunday closest to the end of the relevant calendar month. The Company's fiscal year ends on November 30, regardless of the day of the week. Each quarter consists of approximately 13 weeks, but the number of days per quarter can change from period to period. The quarter ended February 25, 2007 consisted of 87 days, compared to 95 days for the quarter ended March 5, 2006.

The consolidated financial statements do not include certain footnote disclosures and financial information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended November 30, 2006 ("2006 Annual Report").

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued Emerging Issues Task Force ("EITF") 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)." EITF 06-03 requires that any tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer should be presented on a gross (included in revenues and costs) or a net (excluded from revenues) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-03 was first effective for the interim period ended February 25, 2007. The Company presents such taxes on a net basis in its income statements. The adoption of EITF 06-03 did not have a material effect on the Company's consolidated financial statements.

In July 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. FIN 48 is first effective for the year ending November 30, 2008. The Company is evaluating whether the adoption of FIN 48 will have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which formally defines fair value, creates a standardized framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands fair value measurement disclosures. SFAS No. 157 will be effective for the year ending November 30, 2008.

The adoption of SFAS No. 157 is not expected to have a material effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans," amending FASB Statement No. 87, “Employers’ Accounting for Pensions,” FASB Statement No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” FASB Statement No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” and FASB Statement No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its financial statements and to recognize changes in that status in the year in which the changes occur. SFAS No. 158 also requires a company to measure the funded status of a plan as of the date of its year-end financial statements. SFAS No. 158 will be first effective for the year ending November 30, 2007. If SFAS No. 158 had been applied at November 30, 2006 using the November 30, 2006 actuarial valuation, accumulated other comprehensive loss would have increased by approximately $54,600,000 ($36,900,000 after tax) representing the difference between the funded status of the Company’s pension and other post-retirement benefit plans based on the projected and accumulated benefit obligations, respectively, and the amounts recorded on the Company’s balance sheet at November 30, 2006. The ultimate impact is contingent on plan asset returns and the assumptions that will be used to measure the funded status of each of Ameron’s pension and postretirement benefit plans as of November 30, 2007.

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NOTE 3 - DISCONTINUED OPERATIONS

On August 1, 2006, the Company completed the sale of its Performance Coatings & Finishes business (the "Coatings Business") to PPG Industries, Inc. ("PPG"). PPG and the Company are disputing a post-closing adjustment of $3,423,000. The Company believes it is entitled to the disputed amount under the terms of the Purchase Agreement (the “Agreement”). The Company and PPG are in active negotiations to resolve the dispute. If the parties are unable to resolve the dispute the Agreement provides a process for resolution. Certain real properties that were used in the Coatings Business were excluded from the sale. The Company intends to sell the retained properties in the next 12 to 18 months and expects to generate additional proceeds of approximately $15,000,000 based on current estimates of market values. The retained properties are included in other assets of the consolidated balance sheets.

The results of discontinued operations were as follows:

(In thousands)	Three Months Ended February 25, 2007	March 5, 2006
Revenue from discontinued operations	**$ -**	$ 49,320
Income/(loss) from discontinued operations, before income taxes	**$ -**	$ (187)
Income taxes on income from discontinued operations	**156**	23
Income/(loss) from discontinued operations, net of taxes	**$ 156**	$ (164)

Income from discontinued operations, net of taxes, totaled $156,000 or $.02 per diluted share for the quarter ended February 25, 2007, compared to a loss of $164,000, or $.02 per diluted share, for the same period in 2006. During the first quarter of 2007, the Company recognized a net research and development tax credit of $156,000 related to discontinued operations. This tax credit arose from the retroactive application of tax legislation enacted in December 2006.

Prior period income statement amounts have been reclassified to present the operating results of the Coatings Business as a discontinued operation. Prior period balance sheets and cash flow statements have not been adjusted.

NOTE 4 - RECEIVABLES

The Company’s receivables consisted of the following:

(In thousands)	February 25, 2007	November 30, 2006
Trade	**$ 130,305**	$ 124,308
Other	**16,686**	31,299
Joint ventures	**8,775**	9,478
Allowances	**(5,139)**	(4,912)
	$ 150,627	$ 160,173

Trade receivables included unbilled receivables related to percentage-of-completion revenue recognition of $41,234,000 and $32,278,000 at February 25, 2007 and November 30, 2006, respectively.

NOTE 5 - INVENTORIES

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

(In thousands)	February 25, 2007	November 30, 2006

Finished products	**$**	**42,691**	$	30,802
Materials and supplies		**25,752**		22,224
Products in process		**35,880**		24,108
	$	**104,323**	$	77,134

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NOTE 6 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information included the following:

	Three Months Ended	
(In thousands)	**February 25, 2007**	**March 5, 2006**
Interest paid	**$ 203**	$ 647
Income taxes paid	**7,762**	277

NOTE 7 - JOINT VENTURES

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

	Three Months Ended	
(In thousands)	**February 25, 2007**	**March 5, 2006**
Net sales	**$ 76,422**	$ 51,069
Gross profit	**21,790**	5,102
Net income	**11,336**	1,741

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

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

	Three Months Ended	
(In thousands)	**February 25, 2007**	**March 5, 2006**
Earnings from joint ventures		
Equity in earnings of TAMCO before income taxes	**$ 5,668**	$ 871
Less provision for income taxes	**(640)**	(91)
Equity in earnings of TAMCO, net of taxes	**$ 5,028**	$ 780
Dividends received from joint ventures		
TAMCO	**$ -**	$ 275
ASAL	**-**	-
BL	**-**	-

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

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NOTE 8 - 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 plus the effect of outstanding stock options and restricted stock, using the treasury stock method. All outstanding common stock equivalents, consisting of restricted shares of 28,550 and 45,000, and options to purchase 98,500 and 456,783 common shares, were dilutive for the three months ended February 25, 2007 and March 5, 2006, respectively. 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			
(In thousands, except per share data)		**February 25, 2007**		**March 5, 2006**
Numerator:				
Income from continuing operations	**$**	**8,312**	$	3,775
Income/(loss) from discontinuing operations, net of taxes		**156**		(164)
Net income	**$**	**8,468**	$	3,611
Denominator for basic income per share:				
Weighted-average shares outstanding, basic		**8,994,075**		8,614,269
Denominator for diluted income per share:				
Weighted-average shares outstanding, basic		**8,994,075**		8,614,269
Dilutive effect of stock options and restricted stock		**56,450**		171,772
Weighted-average shares outstanding, diluted		**9,050,525**		8,786,041
Basic net income per share:				
Income from continuing operations	**$**	**.92**	$	.44
Income/(loss) from discontinued operations, net of taxes		**.02**		(.02)
Net income	**$**	**.94**	$	.42
Diluted net income per share:				
Income from continuing operations	**$**	**.92**	$	.43
Income/(loss) from discontinued operations, net of taxes		**.02**		(.02)
Net income	**$**	**.94**	$	.41

NOTE 9 - COMPREHENSIVE INCOME

Comprehensive income was as follows:

	Three Months Ended			
(In thousands)		**February 25, 2007**		**March 5, 2006**
Net income	**$**	**8,468**	$	3,611
Foreign currency translation adjustment		**1,418**		557
Comprehensive income	**$**	**9,886**	$	4,168

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTE 10 - DEBT

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

(In thousands)	February 25, 2007	November 30, 2006
Fixed-rate notes:		
5.36%, payable in annual principal installments of $10,000	**$ 30,000**	$ 30,000
4.25%, payable in Singapore dollars, in annual principal installments of $6,664, starting in 2008	**33,320**	33,173
Variable-rate industrial development bonds:		
payable in 2016 (3.86% at February 25, 2007)	**7,200**	7,200
payable in 2021 (3.86% at February 25, 2007)	**8,500**	8,500
Variable-rate bank revolving credit facility (4.23% at February 25, 2007)	**2,243**	3,652
Total long-term debt	**81,263**	82,525
Less current portion	**(10,000)**	(10,000)
Long-term debt, less current portion	**$ 71,263**	$ 72,525

The Company maintains a $100,000,000 revolving credit facility with six banks (the "Revolver"). Under the Revolver, the Company may, at its option, borrow at floating interest rates (LIBOR plus a spread ranging from .75% to 1.625% determined by the Company's financial condition and performance), at any time until September 2010, 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, guarantees, and financial covenants. The Company was in compliance with all covenants as of February 25, 2007. The Revolver, the 4.25% term notes and the 5.36% 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. The interest rate on the industrial development bonds is based on a weekly index of tax exempt issues plus a spread of .20%. Certain note agreements contain provisions regarding the Company's ability to grant security interests or liens in association with other debt instruments. If the Company grants such a security interest or lien, then such notes will be collateralized equally and ratably as long as such other debt shall be collateralized.

The Company intends for short-term borrowings under certain bank facilities utilized by the Company and its foreign subsidiaries to be refinanced on a long-term basis via the Revolver. In addition, the amount available under the Revolver exceeds such short-term borrowings at February 25, 2007. Accordingly, amounts due under these bank facilities have been classified as long-term debt and are considered payable when the Revolver is due.

NOTE 11 - 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 and three reportable segments: Fiberglass-Composite Pipe, Water Transmission and Infrastructure Products. Infrastructure Products consists of two operating segments, the Pole Products and Hawaii Divisions, which are aggregated. In the prior periods, the Company included a fourth reportable segment, Performance Coatings & Finishes, which was sold effective August 1, 2006. The results from this segment have been reported as discontinued operations for all reporting periods. Each of the segments has a dedicated management team and is managed separately, primarily because of differences in products. The Company's Chief Operating Decision Maker is the Chief Executive Officer who primarily reviews sales and income before interest, income taxes and equity in earnings of joint venture for each operating segment in making decisions about allocating resources and assessing performance. The Company allocates certain selling, general and administrative expenses to operating segments utilizing assumptions believed to be appropriate in the circumstances. Costs of shared services (e.g., costs of Company-wide insurance programs or benefit plans) are allocated to the operating segments based on revenue, wages or net assets employed. Other items not related to current operations or of an unusual nature, such as adjustments to reflect inventory balances of certain steel inventories under the last-in, first-out ("LIFO") method, certain unusual legal costs and expenses, interest expense and income taxes, are not allocated to the reportable segments.

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

	Three Months Ended	
(In thousands)	**February 25, 2007**	**March 5, 2006**
Sales		
Fiberglass-Composite Pipe	**$ 46,509**	$ 36,592
Water Transmission	**29,593**	43,181
Infrastructure Products	**45,287**	46,390
Eliminations	**(1,034)**	(191)
Total sales	**$ 120,355**	$ 125,972
Income from continuing operations before interest, income taxes and equity in earnings of Joint Venture		
Fiberglass-Composite Pipe	**$ 8,999**	$ 5,799
Water Transmission	**(4,131)**	1,898
Infrastructure Products	**6,727**	6,863
Corporate & unallocated	**(6,757)**	(8,930)
Total Income from continuing operations before interest, income taxes and equity in earnings of Joint Venture	**$ 4,838**	$ 5,630

	February 25, 2007	**November 30, 2006**
Assets		
Fiberglass-Composite Pipe	**$ 218,898**	$ 206,326
Water Transmission	**180,512**	167,463
Infrastructure Products	**104,884**	97,249
Corporate & unallocated	**270,199**	271,023
Eliminations	**(128,280)**	(107,397)
Total Assets	**$ 646,213**	$ 634,664

NOTE 12 - COMMITMENTS AND 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 February 25, 2007, the Company was a defendant in asbestos-related cases involving 145 claimants, compared to 145 claimants as of November 30, 2006. 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 February 25, 2007, there were new claims involving four claimants, dismissals and/or settlements involving four claimants and no judgments. No net costs and expenses were incurred by the Company for the quarter ended February 25, 2007 in connection with asbestos-related claims.

AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

In May 2003, Dominion Exploration and Production, Inc. and Pioneer Natural Resources USA, Inc., (collectively "Dominion") brought an action against the Company in Civil District Court for the Parish of Orleans, Louisiana as owners of an offshore production facility known as a SPAR constructed for Dominion. Dominion seeks damages allegedly sustained by it resulting from delays in delivery of the SPAR caused by the removal and replacement of certain coatings containing lead and/or lead chromate for which the manufacturer of the SPAR alleged the Company was responsible. 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 has since estimated Dominion's damages at approximately $128,000,000, 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.

In April 2004, Sable Offshore Energy Inc. ("Sable"), as agent for certain owners of the Sable Offshore Energy Project, brought an action against various coatings suppliers and application contractors, including the Company and two of its subsidiaries, Ameron (UK) Limited and Ameron B.V., (collectively "Ameron Subsidiaries"), in the Supreme Court of Nova Scotia, Canada. Sable seeks damages allegedly sustained by it resulting from performance problems with several coating systems used on the Sable Offshore Energy Project, including coatings products furnished by the Company and the Ameron Subsidiaries. Sable's originating notice and statement of claim alleged a claim for damages in an unspecified amount; however, Sable has since alleged that its claim for damages against all defendants is approximately 428,000,000 Canadian dollars, a figure which the Company and the Ameron Subsidiaries contest. 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.

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

NOTE 13 - PRODUCT WARRANTIES AND GUARANTEES

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

	Three Months Ended	
(In thousands)	**February 25, 2007**	**March 5, 2006**
Balance, beginning of period	**$ 3,146**	$ 4,026
Payments	**(544)**	(530)

Warranties issued during the period		**953**		418
Balance, end of period	**$**	**3,555**	$	3,914

NOTE 14 - GOODWILL AND OTHER INTANGIBLE ASSETS

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets with indefinite useful lives not be amortized but instead be tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values.

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AMERON INTERNATIONAL CORPORATION AND SUBSIDIARIES

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

(In thousands)	November 30, 2006	Acquisition/ (Disposition)	Foreign Currency Translation Adjustments	February 25, 2007
Fiberglass-Composite Pipe	$ 1,440	$ -	$ -	**$ 1,440**
Water Transmission	390	-	-	**390**
Infrastructure Products	201	-	-	**201**
	$ 2,031	$ -	$ -	**$ 2,031**

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

	February 25, 2007		November 30, 2006	
(In thousands)	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
Trademarks	**$ 100**	**$ (100)**	$ 100	$ (100)
Non-compete agreements	**252**	**(146)**	252	(140