

AMERON INTERNATIONAL CORP  
Form 10-Q  
April 02, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended February 28, 2003

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)

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 //

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

The number of shares outstanding of Common Stock, \$2.50 par value, was 3,950,312 on February 28, 2003. No other class of Common Stock exists.

1

**AMERON INTERNATIONAL CORPORATION**

**INDEX**

Page

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	
	Consolidated Statements of Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Market Risk Disclosure	16
Item 4.	Controls and Procedures	16

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	16
Item 2.	Changes in Securities	16
Item 6.	Exhibits and Reports on Form 8-K	16

SIGNATURE PAGE	17
----------------	----

CERTIFICATIONS	18
----------------	----

**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)**

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	Three Months Ended February 28,	
	2003	2002
Sales	\$ 130,621	\$ 120,702
Cost of Sales	(97,956)	(90,263)
Gross Profit	32,665	30,439
Selling, General and Administrative Expenses	(28,569)	(27,238)
Equity in (Losses) Earnings of Joint Ventures	(220)	814
Other Income, Net	888	977
Income before Interest and Income Taxes	4,764	4,992
Interest Income	46	18
Interest Expense	(1,515)	(2,406)
Income before Income Taxes	3,295	2,604
Provision for Income Taxes	(1,120)	(833)
Net Income	\$ 2,175	\$ 1,771
Net Income per Share (Basic)	\$ .56	\$ .46
Net Income per Share (Diluted)	\$ .54	\$ .43
Weighted Average Shares (Basic)	3,913,770	3,873,007
Weighted Average Shares (Diluted)	4,013,098	4,139,386
Cash Dividends per Share	\$ .32	\$ .32
Pro Forma (1):		
Net Income per Share (Basic)	\$ .28	\$ .23
Net Income per Share (Diluted)	\$ .27	\$ .21
Cash Dividends per Share	\$ .16	\$ .16

(1) Pro forma per share information for the three months ended February 28, 2003 and 2002 reflects a two-for-one stock split in the form of a stock dividend declared on March 26, 2003, payable on May 27, 2003 to shareholders of record on May 1, 2003.

See accompanying notes to consolidated financial statements.

Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

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

	February 28, 2003 ( Unaudited )	November 30, 2002
	-----	-----
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 12,903	\$ 10,360
Receivables, Less Allowances of \$7,333 in 2003 and \$6,652 in 2002	130,411	131,283
Inventories	89,009	88,020
Deferred Income Taxes	16,528	16,528
Prepaid Expenses and Other Current Assets	9,923	6,671
	-----	-----
Total Current Assets	258,774	252,862
Investments, Advances and Equity in Undistributed Earnings of Joint Ventures	19,361	18,927
Property, Plant and Equipment, Net	147,085	145,242
Intangible Assets, Net of Accumulated Amortization of \$8,978 in 2003 and \$8,551 in 2002	13,137	13,013
Other Assets	37,886	32,898
	-----	-----
Total Assets	\$ 476,243	\$ 462,942
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings	\$ 26	\$ 1,009
Current Portion of Long-Term Debt	8,333	8,333
Trade Payables	51,578	46,295
Accrued Liabilities	44,990	45,994
Income Taxes Payable	3,548	2,026
	-----	-----
Total Current Liabilities	108,475	103,657
Long-Term Debt, Less Current Portion	99,895	102,823
Other Long-Term Liabilities	49,588	44,636
	-----	-----
Total Liabilities	257,958	251,116
	-----	-----
Stockholders' Equity		
Common Stock, Par Value \$2.50 a Share, Authorized 12,000,000 Shares, Outstanding 3,950,312 Shares in 2003 and 3,945,662 in 2002, Net of Treasury Shares	13,208	13,198
Additional Paid-In Capital	23,692	23,950
Unearned Restricted Stock	(1,993)	(2,164)
Retained Earnings	271,360	270,449
Accumulated Other Comprehensive Loss	(39,350)	(44,948)
Treasury Stock (1,332,905 Shares in 2003 and 1,333,655 in 2002)	(48,632)	(48,659)
	-----	-----
Total Stockholders' Equity	218,285	211,826
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 476,243	\$ 462,942
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Three Months Ended February 28,	
	2003	2002
	-----	-----
Cash Flows from Operating Activities		
Net Income	\$ 2,175	\$ 1,771
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	4,495	4,408
Amortization	94	173
Provision for Deferred Income Taxes	205	88
Equity in Losses (Earnings) of Joint Ventures	220	(814)
Dividends from Joint Ventures	275	825
Loss (Gain) from Sale of Property, Plant and Equipment	5	(34)
Stock Compensation Expense	(225)	889
Changes in Operating Assets and Liabilities:		
Receivables	3,912	6,013
Inventories	(588)	984
Prepaid Expenses and Other Current Assets	(3,074)	(2,348)
Other Assets	(3,422)	(698)
Trade Payables	4,353	(3,027)
Accrued Liabilities and Income Taxes Payable	(265)	(4,411)
Other Long-Term Liabilities	4,695	214
	-----	-----
Net Cash Provided by Operating Activities	12,855	4,033
	-----	-----
Cash Flows from Investing Activities		
Proceeds from Sale of Property, Plant and Equipment	228	134
Additions to Property, Plant and Equipment	(3,902)	(2,825)
	-----	-----
Net Cash Used in Investing Activities	(3,674)	(2,691)
	-----	-----
Cash Flows from Financing Activities		
Net Change in Short-Term Borrowings	(1,320)	(2,861)
Issuance of Debt	65,413	5,570
Repayment of Debt	(68,523)	(130)
Debt Issuance Costs	(1,468)	--
Dividends on Common Stock	(1,264)	(1,239)
Exercise of Stock Options	174	--
	-----	-----
Net Cash (Used in) Provided By Financing Activities	(6,988)	1,340
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	350	(66)
	-----	-----
Net Change in Cash and Cash Equivalents	2,543	2,616
Cash and Cash Equivalents at Beginning of Period	10,360	11,315
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 12,903	\$ 13,931
	=====	=====

See accompanying notes to consolidated financial statements.

5

**Ameron International Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(In Thousands Except Share and 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") at February 28, 2003, and its consolidated results of operations and cash flows for the three months ended February 28, 2003 and 2002. 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.

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, 2002 ("2002 Annual Report").

**Note 2. New Accounting Pronouncements**

Effective December 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. Upon adoption of SFAS No. 142, the Company ceased amortizing existing goodwill. The Company is currently in the process of performing the first step of the prescribed transitional goodwill impairment test with respect to existing goodwill. The first step of the transitional goodwill impairment test involves a comparison of the fair value of a reporting unit, as defined under SFAS No. 142, with its carrying amount. If the carrying amount exceeds the fair value of any reporting unit, the Company will perform the second and final step of the transitional goodwill impairment test, which will be used to measure the amount of any impairment loss. The Company's disclosures required under SFAS No. 142 are included in Note 12, herein.

Effective December 1, 2002, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses the obligations and retirement costs associated with the retirement of tangible long-lived assets. The standard requires that the fair value of the liability for an asset retirement obligation be recorded when incurred. The asset retirement costs must be capitalized as part of the carrying value of the long-lived asset. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial statements.

Effective December 1, 2002, the Company adopted SFAS No. 144, "Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and provides guidance on implementation issues related to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and addresses the accounting for a segment of a business accounted for as a discontinued operation. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated financial statements.

## Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Effective December 1, 2002, the Company adopted SFAS No. 145, "Rescission of Financial Accounting Standards Board ("FASB") Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." In so doing, SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated, and, if material, classified as an extraordinary item, net of the related income tax effect, unless the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transactions are accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of SFAS No. 145 did not have a material impact on the Company's consolidated financial statements.

6

The Company adopted SFAS No. 146, "Accounting for Exit or Disposal Activities", during the quarter ended February 28, 2003. SFAS No. 146 addresses issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force has set forth in Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. FIN No. 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 specifically identifies certain obligations that are excluded from the provisions related to recognizing a liability at inception; however, these guarantees are subject to the disclosure requirements of FIN No. 45. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's disclosure of guarantees is included in Note 11, herein. The adoption of the recognition and measurement provisions of FIN No. 45 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." This standard clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities (more commonly known as Special Purpose Entities or SPE's). FIN No. 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. FIN No. 46 also enhances the disclosure requirements related to variable interest entities. This statement is effective for variable interest entities created or in which an enterprise obtains an interest after January 31, 2003. FIN No. 46 will be effective for the Company beginning September 1, 2003 for all interests in variable interest entities acquired before February 1, 2003. The adoption of FIN No. 46 is not expected to have a material impact on the Company's consolidated financial statements.

### Note 3. Inventories

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

	February 28, 2003	November 30, 2002
Finished Products	\$ 52,864	\$ 52,359
Materials and Supplies	19,122	20,373
Products in Process	17,023	15,288
	-----	-----
	\$ 89,009	\$ 88,020
	=====	=====

### Note 4. Supplemental Disclosure of Cash Flow Information

Three Months Ended  
February 28,

-----



Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

	2003	2002
	-----	-----
Interest Paid	\$ 987	\$ 2,903
Income Taxes Refunded	\$ (795)	\$ (1,577)

7

**Note 5. Joint Ventures**

Operating results of joint ventures, which were accounted for under the equity method, were as follows:

	Three Months Ended February 28,	
	2003	2002
	-----	-----
Net Sales	\$ 47,052	\$ 51,729
Gross Profit	\$ 7,162	\$ 14,927
Net Income	\$ 3,787	\$ 7,305

Amounts shown above include the operating results of Ameron Saudi Arabia, Ltd., Bondstrand, Ltd. and Oasis-Ameron, Ltd. for the three months ended December 31, 2002 and 2001 and TAMCO for the three months ended February 28, 2003 and 2002.

**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 plus the effect of outstanding stock options and restricted stock, using the treasury stock method. For the three months ended February 28, 2003, options to purchase 81,500 common shares were anti-dilutive. All outstanding common stock equivalents were dilutive for the three months ended February 28, 2002. 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 February 28,	
	2003	2002
	-----	-----
Basic Average Common Shares Outstanding	3,913,770	3,873,007
Dilutive Effect of Common Stock Equivalents	99,328	266,379
Diluted Average Common Shares Outstanding	4,013,098	4,139,386
	=====	=====

On March 26, 2003 the Company's Board of Directors declared a two-for-one stock split in the form of a stock dividend of one additional common share for every outstanding common share held by stockholders of record on May 1, 2003, payable May 27, 2003. The presentation of

## Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

the pro forma per share information on the consolidated statements of income reflects the Company's earnings and dividends per share on a post-split basis.

### Note 7. Comprehensive Income

Comprehensive income was computed as follows:

	Three Months Ended February 28,	
	2003	2002
Net Income	\$ 2,175	\$ 1,771
Foreign Currency Translation Adjustment	4,672	(554)
Comprehensive Income from Joint Venture	926	20
Comprehensive Income	<u>\$ 7,773</u>	<u>\$ 1,237</u>

### Note 8. Debt

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

	February 28, 2003	November 30, 2002
Fixed-rate secured notes payable, bearing interest at 7.92%, in annual principal installments of \$8,333	\$ 33,333	\$ 33,333
Fixed-rate secured notes payable, bearing interest at 5.36%, in annual principal installments of \$10,000 beginning in 2005	50,000	--
Variable-rate industrial development bonds, payable in 2016 (1.15% at February 28, 2003)	7,200	7,200
Variable-rate industrial development bonds, payable in 2021 (1.30% at February 28, 2003)	8,500	8,500
Variable-rate secured bank revolving credit facilities; payable in 2006 (3.39% at February 28, 2003)	9,195	--
Variable-rate bank revolving credit facilities	--	62,123
Total long-term debt	<u>108,228</u>	<u>111,156</u>
Less current portion	(8,333)	(8,333)
Long-term debt, less current portion	<u>\$ 99,895</u>	<u>\$ 102,823</u>

In January 2003, the Company finalized a three-year, \$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 based on specified margins over money market rates, at any time until January 2006, when all borrowings under the Revolver must be repaid. Also in January 2003, the Company issued \$50,000,000 of notes payable to an insurance company at a fixed rate of 5.36%. These fixed-rate notes payable amortize \$10,000,000 per year beginning in November 2005, with a final maturity in November 2009. The Revolver and the 5.36% notes payable replaced a \$150,000,000 revolving credit facility that was maintained at November 30, 2002. 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.

### Note 9. Segment Information

## Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

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

	Three Months Ended February 28,	
	2003	2002
Sales		
Performance Coatings & Finishes	\$ 39,304	\$ 38,225
Fiberglass-Composite Pipe	27,232	21,593
Water Transmission	34,365	33,379
Infrastructure Products	30,603	27,749
Eliminations	(883)	(244)
<b>Total Sales</b>	<b>\$ 130,621</b>	<b>\$ 120,702</b>
Income (Loss) Before Interest and Income Taxes		
Performance Coatings & Finishes	\$ 197	\$ (700)
Fiberglass-Composite Pipe	4,180	2,402
Water Transmission	2,376	4,622
Infrastructure Products	2,819	2,976
Corporate & Unallocated	(4,808)	(4,308)
<b>Total Income Before Interest and Income Taxes</b>	<b>\$ 4,764</b>	<b>\$ 4,992</b>

9

	February 28, 2003	November 3 2002
Assets		
Performance Coatings & Finishes	\$ 140,387	\$ 138,616
Fiberglass-Composite Pipe	146,742	138,712
Water Transmission	110,769	115,078
Infrastructure Products	68,746	68,272
Corporate & Unallocated	147,423	140,233
Eliminations	(137,824)	(137,969)
<b>Total Assets</b>	<b>\$ 476,243</b>	<b>\$ 462,942</b>

### Note 10. Commitments & Contingencies

An action was filed in 1992 in the U.S. District Court for the District of Arizona by the Central Arizona Water Conservation District ("CAWCD") seeking damages against several parties, including the Company and the Company's customer, Peter Kiewit Sons Company ("Kiewit"), in connection with six prestressed concrete pipe siphons furnished and installed in the 1970's as part of the Central Arizona Project ("CAP"), a federal project to bring water from the Colorado River to Arizona. The CAWCD also filed separate actions against the U.S. Bureau of Reclamation ("USBR") in the U.S. Court of Claims and with the Arizona Projects Office of the USBR in connection with the CAP siphons. The CAWCD alleged that the six CAP siphons were defective and that the USBR and the defendants in the U.S. District Court action were liable for damages for the repair or replacement of those siphons. On September 14, 1994, the U.S. District Court granted the Company's motion to dismiss the CAWCD action and entered judgement against the CAWCD and in favor of the Company and its co-defendants.

Separately, on September 28, 1995, the Contracting Officer for the USBR issued a final decision claiming for the USBR approximately \$40 million in damages against Kiewit, based in part on the Contracting Officer's finding that

the siphons supplied by the Company were defective. That claim amount was duplicative of the damages sought by the CAWCD for the repair or replacement of the siphons in its aforementioned action in the U.S. District Court for the District of Arizona. The Contracting Officer's final decision was appealed by Kiewit to the U.S. Department of the Interior Board of Contract Appeals ("IBCA"). The Company actively cooperated with and assisted Kiewit in the administrative appeal of that final decision before the IBCA. Trial on that appeal commenced in November 2000; however, the proceeding was stayed with the concurrence of the parties pending efforts aimed at settlement of the entire matter. Settlement efforts were then undertaken, during which the IBCA appeal was suspended.

In January 2003, settlements were finalized among the USBR, Kiewit, the Company and various insurance carriers. The entire matter, including the aforementioned CAWCD claim, was resolved on economic terms that did not result in an adverse material effect on the financial position of the Company or its results of operations. The Company entered into agreements with its own and a supplier's insurance carriers providing for the reimbursement of past legal fees and costs incurred in defense and settlement of this matter which exceeded the negotiated settlement with the USBR by approximately \$.9 million.

The Company is one of numerous defendants in various pending lawsuits involving, as of February 28, 2003, 13,135 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals or their representatives, 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 such 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 these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

In addition to the above, 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 also 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

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 for the three months ended February 28, 2003 were as follows:

Balance, Beginning of Period	\$ 4,257
Payments	(642)
Change in Liability for Warranties Issued During the Period	770
Change in Liability for Preexisting Warranties	-
	-----
Balance, End of Period	\$ 4,385

=====

**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, 2002	Foreign Currency Translation Adjustments	Impairments	February 28, 2003
Performance Coatings & Finishes Group	\$ 10,701	\$ 209	\$ -	\$ 10,910
Fiberglass-Composite Pipe Group	1,440	-	-	1,440
Water Transmission Group	-	-	-	-
Infrastructure Products Group	201	-	-	201
<b>Total</b>	<b>\$ 12,342</b>	<b>\$ 209</b>	<b>\$ -</b>	<b>\$ 12,551</b>

The following summarizes the pro forma impact of excluding goodwill amortization from the Company's operating results:

	Three Months Ended, February 28,	
	2003	2002
Reported Net Income	\$ 2,175	\$ 1,771
Goodwill Amortization Expense, net of tax	-	69
<b>Pro Forma Net Income</b>	<b>\$ 2,175</b>	<b>\$ 1,840</b>
<b>Basic Net Income Per Share:</b>		
As Reported	\$ 0.56	\$ 0.46
Pro Forma	\$ 0.56	\$ 0.48
<b>Diluted Net Income Per Share:</b>		
As Reported	\$ 0.54	\$ 0.43
Pro Forma	\$ 0.54	\$ 0.44

The Company's intangible assets and related accumulated amortization consisted of the following:

	February 28, 2003		November 30, 2002	
	Gross Intangible Assets	Accumulated Amortization	Gross Intangible Assets	Accumulated Amortization
Trademarks	\$ 1,994	\$ (1,876)	\$ 1,961	\$ (1,800)
Non-Compete Agreements	2,105	(1,637)	2,105	(1,550)
Patents	212	(212)	212	(212)
Leasehold Interests	1,930	(1,930)	1,930	(1,930)
<b>Total</b>	<b>\$ 6,241</b>	<b>\$ (5,655)</b>	<b>\$ 6,208</b>	<b>\$ (5,532)</b>

All intangible assets are subject to amortization. Amortization expense for the three months ended February 28, 2003 was \$94. At February 28, 2003, estimated future amortization expense is as follows: \$214 for the remaining nine months of fiscal year 2003, \$292 for fiscal year 2004 and \$80 for fiscal year 2005.

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

**Ameron International Corporation and Subsidiaries  
February 28, 2003**

**INTRODUCTION**

Management's Discussion and Analysis should be read in conjunction with the same discussion included in the Company's 2002 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 2002 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. 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 primarily at the time goods are shipped. Revenue is recognized for the Water Transmission Group primarily under the percentage of completion method, typically based on completed units of production, or, in some cases, at shipment. 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.

The Company expenses environmental clean-up costs related to existing conditions resulting from past or current operations and from which no current or future benefit is anticipated. The Company determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

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. 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. 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 3 to 40 years.

Investments in 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. Reserves are provided where management determines that a portion of the investment or earnings are estimated not to be

realizable.

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 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.

Defined benefit pension plans and postretirement health care and life insurance benefit plans require estimating the cost of benefits to be provided well into the future and attributing that cost to the time period each covered employee works. To record these net assets and obligations, management uses estimates relating to assumed inflation, investment returns, mortality, employee turnover, rate of compensation increases, medical costs and discount rates. Management along with third-party actuaries review these assumptions on an ongoing basis.

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. Management considers it unlikely that resolution of any such matters would have a material adverse effect upon the Company's consolidated financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the three months ended February 28, 2003, the Company generated \$12.9 million of cash from operating activities compared to \$4.0 million generated from operations for the same period in 2002. The higher operating cash flow in 2003 was due to higher income and a net increase in operating liabilities partially offset by a net increase in operating assets.

Net cash of \$3.7 million was used in investing activities for the three months ended February 28, 2003, compared to \$2.7 million used in the same period in 2002. Cash used in investing activities consisted primarily of capital expenditures for normal replacement and upgrades of machinery and equipment. Additionally, a distribution warehouse was purchased in 2003 for \$1.3 million. Management estimates that capital expenditures during fiscal 2003 will be between \$15.0 and \$25.0 million. Capital expenditures are expected to be funded by existing cash balances, cash generated from operations or additional borrowings.

Net cash used in financing activities was \$7.0 million in 2003, compared to \$1.3 million provided by financing activities in 2002. The decrease in 2003 resulted from the net repayment of debt of \$4.4 million, debt issuance costs of \$1.5 million, and \$1.3 million for payment of common stock dividends.

In January 2003, the Company finalized a three-year, \$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 based on specified margins over money market rates, at any time until January 2006, when all borrowings under the Revolver must be repaid. Also in January 2003, the Company issued \$50,000,000 of notes payable to an insurance company at a fixed rate of 5.36%. These fixed-rate notes payable amortize \$10,000,000 per year beginning in November 2005, with a final maturity in November 2009. The Revolver and the 5.36% notes payable replaced a \$150,000,000 revolving credit facility that was maintained at November 30, 2002.

Cash and cash equivalents at February 28, 2003 totaled \$12.9 million, an increase of \$2.5 million from November 30, 2002. At February 28, 2003, the Company had total debt outstanding of \$108.2 million and approximately \$96 million in unused committed and uncommitted credit lines available from foreign and domestic banks.

## Edgar Filing: AMERON INTERNATIONAL CORP - Form 10-Q

Management believes that cash flows from operations and current cash balances, together with currently available lines of credit will be sufficient to meet operating requirements in 2003. Cash available from operations could be affected by any general economic downturn or any downturn or adverse changes in the Company's business, such as loss of customers or significant raw material price increases.

On March 26, 2003, the Company's Board of Directors declared a quarterly dividend of \$.40 per share of common stock, payable on May 20, 2003 to stockholders of record on April 24, 2003. The Company's recent historical practice has been to pay dividends on its common stock of \$.32 per quarter.

The Company's contractual obligations and commercial commitments at February 28, 2003 are summarized as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-Term Debt (a)	\$108,228	\$ 8,333	\$ 26,666	\$37,529	\$35,700
Operating Leases	38,248	4,529	6,837	3,954	22,928
<b>Total Contractual Obligations (b)</b>	<b>\$146,476</b>	<b>\$ 12,862</b>	<b>\$ 33,503</b>	<b>\$41,483</b>	<b>\$58,628</b>

  

Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Lines of Credit (a)	\$ 26	\$ 26	\$ --	\$ --	\$ --
Standby Letters of Credit (c)	1,634	1,634	--	--	--
<b>Total Commercial Commitments (b)</b>	<b>\$ 1,660</b>	<b>\$ 1,660</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

(a) Included in long-term debt is \$9,195 outstanding under a revolving credit facility, due in 2006, and bank lines supported by the Revolver. Lines of credit represent short-term borrowings by the Company's foreign subsidiaries.

(b) The Company has no capitalized lease obligations, unconditional purchase obligations, guarantees, or standby repurchase obligations.

(c) Not included are standby letters of credit supporting industrial development bonds that have principal of \$15,700.

## RESULTS OF OPERATIONS

### General

Net income totaled \$2.2 million, or \$.54 per diluted share, on sales of \$130.6 million for the quarter ended February 28, 2003, compared to net income of \$1.8 million, or \$.43 per diluted share, on sales of \$120.7 million for the same period in 2002. All operating segments had higher sales, and improved segment income from the Performance Coatings & Finishes and Fiberglass-Composite Pipe Groups offset declines by the Water Transmission and Infrastructure Products Groups. The overall improvement in net income came from higher sales and lower interest expense.

### Sales

Sales increased by \$9.9 million in the first quarter of 2003, compared to the same period in 2002. While each operating segment improved, the largest gain came from the Company's Fiberglass-Composite Pipe business. The Fiberglass-Composite Pipe Group benefited from strong demand in Asia for fiberglass piping for construction of offshore oil and marine vessels.

Performance Coatings & Finishes' sales increased by \$1.1 million due to higher sales of protective coatings by operations in Europe and higher sales of industrial finishes in Australia and New Zealand. Sales of protective coatings in the U.S. declined due to continued sluggishness in U.S. industrial markets and partly due to deferred maintenance of currently deployed U.S. Navy ships. The short-term outlook for the Performance Coatings & Finishes Group has improved slightly, with full recovery dependent on improvement in worldwide industrial, oilfield and marine markets for protective coatings.



Fiberglass-Composite Pipe's sales increased \$5.6 million due to the strength of Asian operations. Sales to industrial markets outside of Asia declined, reflecting weak market conditions. Sales of onshore oilfield piping also declined as oilfield spending remained constrained in spite of unusually high oil prices. Increased bidding activity in Europe and the strong performance by Asian operations support an improvement in the outlook for the Fiberglass-Composite Pipe Group.

The Water Transmission Group's sales increased \$1.0 million. Sales of fabrication steel pilings for the San Francisco/Oakland Bay Bridge increased significantly during the first quarter of 2003. Sales of concrete and steel pipe for fresh and waste water applications declined. 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 near-term outlook for Water Transmission remains positive.

Infrastructure Products' sales increased \$2.9 million. Hawaiian and pole operations continued to benefit from the strong housing and commercial construction spending, which was spurred by low interest rates. The outlook for the Infrastructure Products Group remains positive.

### **Gross Profit**

Gross profit in the first quarter of 2003 was \$32.7 million, or 25.0% of sales, compared to \$30.4 million, or 25.2% of sales, in the same period in 2002. Gross profit increased due to higher sales. Overall margins declined due primarily to a change in product mix, especially related to increased sales of lower-margin steel pilings by the Water Transmission Group.

Performance Coatings & Finishes had higher margins in the first quarter of 2003 than in the first quarter of 2002, benefiting from a change in product mix and favorable raw material prices. Fiberglass-Composite Pipe's margins increased significantly due to a change in product mix, productivity enhancements taken in 2002, and improved plant utilization, especially in Asia. Margins for the Water Transmission Group and Infrastructure Products Group declined due to changes in product mix.

### **Selling, General and Administration Expenses**

Selling, general and administrative expenses totaled \$28.6 million, or 21.9% of sales, in 2003, compared to \$27.2 million, or 22.6% of sales, in the first quarter of 2002. Selling, general and administrative costs partly increased because of higher sales. The \$1.4 million increase also included almost \$2.5 million of higher pension and insurance costs in 2003, as well as higher severance costs of almost \$.7 million in 2003 related to the European coatings operations. Offsetting the increased costs were savings from cost reduction programs implemented in 2002 in worldwide Fiberglass-Composite Pipe operations and U.S. coatings operations. Also reducing selling, general and administrative expenses was a net recovery of \$.9 million representing the excess of amounts agreed to be reimbursed to the Company from its own and a supplier's insurance companies for past legal fees and costs over the negotiated settlement with the USBR of the Central Arizona Project lawsuits reached in January 2003.

### **Equity and Other Income**

Equity in earnings of joint ventures decreased by \$1.0 million, compared to the first quarter of 2002. TAMCO, Ameron's 50%-owned steel mill, suffered from higher scrap and energy costs. TAMCO purchases and melts scrap for conversion into reinforcing bar. Scrap prices increased due to worldwide demand, especially for the Chinese steel market. TAMCO is expected to improve later in 2003.

Other income included royalties and fees from licensees, currency gains and losses and other miscellaneous income. Royalties and fees totaled \$.6 million in the first quarter of 2003, compared to \$.4 million in the first quarter of 2002.

### **Interest**

Interest expense totaled \$1.5 million in 2003, compared to \$2.4 million in 2002. The decrease reflected lower average borrowing levels in 2003.

### **Provision for Income Taxes**

The effective tax rate was 34% in the first quarter of 2003 and 32% in the first quarter of 2002. The higher effective tax rate reflects the anticipated mix of income from domestic operations, foreign operations and joint ventures. Income from certain foreign operations and joint ventures is taxed at rates lower than U.S. statutory tax rates.

**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 2002 Annual Report.

**Item 4. Controls and Procedures**

Within the 90 days prior to the date of this report, 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 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 the date of their evaluation.

*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 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 pending lawsuits involving 13,135 individuals or their representatives alleging personal injury from exposure to asbestos-containing products. None of such lawsuits specifies any dollar amount sought as damages by such individuals or their representatives, 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 such 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 these claims. The Company intends to vigorously defend all asbestos-related lawsuits.

**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 \$26.2 million of consolidated retained earnings were not restricted at February 28, 2003.

**Item 6. Exhibits and Reports on Form 8-K**

A Form 8-K was filed on January 24, 2003 to report the Company's financial results for the year ended November 30, 2002, as reported in a press release dated January 23, 2003.

A Form 8-K was filed on February 4, 2003 to report the Company's favorable resolution of CAP suit, as reported in a press release dated February 3, 2003.

**Signature Page**

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

Corporation

Ameron International

1, 2003

Date: April

By: \_\_\_\_\_

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

17

**Signature Page**

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

Corporation

Ameron International

1, 2003

Date: April

By: /s/ Gary Wagner

-----

Gary Wagner  
*Senior Vice President, Chief Financial Officer*

CERTIFICATIONS

I, Gary Wagner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 1, 2003

-----  
Gary Wagner  
*Senior Vice President, Chief Financial Officer*

18

### CERTIFICATIONS

I, James S. Marlen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameron International Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date or our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 1, 2003

-----  
James S. Marlen

*Chairman of the Board, President & Chief Executive Officer*