NORTH AMERICAN GALVANIZING & COATINGS INC
Form 10-Q
October 28, 2005

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

COMMISSION FILE NO. 1-3920

NORTH AMERICAN GALVANIZING & COATINGS, INC.
(Exact name of the registrant as specified in its charter)

DELAWARE	71-0268502
(State of Incorporation)	(I.R.S. Employer Identification No.)

2250 EAST 73RD STREET
TULSA, OKLAHOMA 74136
(Address of principal executive offices)

Registrant's telephone number: (918) 494-0964

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 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 defined in Rule 12b-2 of the Exchange Act). YES [_] NO [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2005.

Common Stock $ .10 Par Value 6,846,848

NORTH AMERICAN GALVANIZING & COATINGS, INC.
AND SUBSIDIARY

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FORWARD LOOKING STATEMENTS OR INFORMATION

Certain statements in this Form 10-Q, including information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results

of Operations", constitute "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are typically punctuated by words or phrases such as "anticipates," "estimate," "should," "may," "management believes," and words or phrases of similar import. The Company cautions investors that such forward-looking statements included in this Form 10-Q, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company's stockholders and other publicly available statements issued or released by the Company involve significant risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, and the raw materials cost of zinc; changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company's reports filed with the Securities and Exchange Commission. The Company believes that the important factors set forth in the Company's cautionary statements at Exhibit 99 to this Form 10-Q could cause such a material difference to occur and investors are referred to Exhibit 99 for such cautionary statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
North American Galvanizing & Coatings, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of North American Galvanizing & Coatings, Inc. and subsidiary (the "Company") as of September 30, 2005, and the related condensed consolidated statements of operations and comprehensive income for the three- and nine-month periods ended September 30, 2005 and 2004 and of cash flows for the nine-month periods ended September 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of

North American Galvanizing & Coatings, Inc. and subsidiary as of December 31, 2004, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated April 12, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Deloitte & Touche LLP

Tulsa, Oklahoma
October 28, 2005

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NORTH AMERICAN GALVANIZING & COATINGS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	UNAUDITED SEPTEMBER 30 2005	December 31 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 1,106	$ 634
Trade receivables, net	7,244	4,654
Inventories	6,324	5,693
Prepaid expenses and other assets	763	521
Deferred tax asset, net	343	723
TOTAL CURRENT ASSETS	15,780	12,225
PROPERTY, PLANT AND EQUIPMENT, AT COST		
Land	2,167	1,967
Galvanizing plants and equipment	35,488	32,805
	37,655	34,772
Less: Accumulated depreciation	(15,737)	(13,861)
Construction in progress	183	220
Total Property, Plant and Equipment, Net	22,101	21,131
GOODWILL, NET OF ACCUMULATED AMORTIZATION	3,448	3,389
OTHER ASSETS	290	369
TOTAL ASSETS	$ 41,619	$ 37,114
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term obligations	$ 716	$ 604
Current portion of bonds payable	720	692
Subordinated notes payable	991	--
Trade accounts payable	1,879	582
Accrued payroll and employee benefits	953	717

Other taxes	647	405
Other accrued liabilities	1,657	604
TOTAL CURRENT LIABILITIES	7,563	3,604
DEFERRED TAX LIABILITY, NET	1,020	944
LONG-TERM OBLIGATIONS	8,672	7,347
BONDS PAYABLE	5,390	5,934
SUBORDINATED NOTES PAYABLE	--	976
TOTAL LIABILITIES	22,645	18,805
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDER'S EQUITY		
Common stock	821	819
Additional paid-in capital	17,321	17,252
Retained earnings	6,289	5,899
Common shares in treasury at cost	(5,457)	(5,661)
TOTAL STOCKHOLDERS' EQUITY	18,974	18,309
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 41,619	$ 37,114

See notes to condensed consolidated interim financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Operations
and Comprehensive Income (Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS SEPTEMBER
(Dollars in Thousands Except per Share Amounts)	2005	2004	2005
SALES	$ 12,687	$ 9,348	$ 34,768
Cost of sales	9,721	6,725	26,254
Selling, general & administrative expenses	1,778	1,370	5,209
Depreciation expense	600	686	1,865
TOTAL COSTS AND EXPENSES	12,099	8,781	33,328
OPERATING INCOME	588	567	1,440
Interest expense, net	285	198	788
Other income	--	--	--
Income before income taxes	303	369	652
Income tax expense	124	140	262

NET INCOME	$ 179	$ 229	$ 390	$
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized holding gain on investment	--	--	--	
Less: reclassification adjustment for realized gain included in net income	--	--	--	
OTHER COMPREHENSIVE INCOME (LOSS)	$ --	$ --	$ --	$
COMPREHENSIVE INCOME	$ 179	$ 229	$ 390	$
NET INCOME PER COMMON SHARE				
Net Income:				
Basic	$ 0.03	$ 0.03	$ 0.06	$
Diluted	$ 0.02	$ 0.03	$ 0.05	$

See notes to condensed consolidated interim financial statements.

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NORTH AMERICAN GALVANIZING & COATINGS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	NINE MONTHS ENDED SEPTEMBER 30	
(Dollars in Thousands)	2005	2004
OPERATING ACTIVITIES		
Net income	$ 390	$ 545
Loss from disposal of fixed assets	51	14
Depreciation and amortization	1,865	2,068
Sale of investment securities	--	(25)
Deferred income taxes	456	16
Non-cash directors' fees	175	54
Changes in assets and liabilities, net of purchase of assets from Gregory Industries, Inc. (Note 2)		
Accounts receivable, net	(1,643)	(818)
Inventories and other assets	108	(760)
Accounts payable, accrued liabilities and other	2,828	323
CASH PROVIDED BY OPERATING ACTIVITIES	4,230	1,417
INVESTING ACTIVITIES		
Payment for purchase of Gregory Industries' galvanizing operation	(4,188)	--
Proceeds from sale of assets	--	92
Capital expenditures	(606)	(1,129)
CASH USED IN INVESTING ACTIVITIES	(4,794)	(1,037)

FINANCING ACTIVITIES		
Purchase of treasury shares	--	(45)
Proceeds from sale of treasury stock	100	
Payment on bonds	(516)	(487)
Proceeds from long-term obligations	17,469	13,107
Payments on long-term obligations	(16,017)	(12,525)
CASH PROVIDED BY FINANCING ACTIVITIES	1,036	50
INCREASE IN CASH AND CASH EQUIVALENTS	472	430
CASH AND CASH EQUIVALENTS:		
Beginning of Year	634	56
End of Year	$ 1,106	$ 486
CASH PAID (RECEIVED) DURING THE YEAR FOR:		
Interest	$ 733	$ 558
Income taxes (net of refunds of $432 in 2005)	$ (376)	288

See notes to condensed consolidated interim financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC.AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005 and 2004
UNAUDITED

NOTE 1. BASIS OF PRESENTATION

The condensed consolidated interim financial statements included in this report have been prepared by North American Galvanizing & Coatings, Inc. (the "Company") pursuant to its understanding of the rules and regulations of the Securities and Exchange Commission for interim reporting and include all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation. The condensed consolidated interim financial statements include the accounts of the Company and its subsidiary.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures are adequate to make the information presented not misleading. However, these interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the periods. Actual results will be determined based on the outcome of future events and could differ from the estimates. The Company's sole business is hot dip

galvanizing and coatings which is conducted through its wholly owned subsidiary, North American Galvanizing Company ("NAG").

NOTE 2. BUSINESS EXPANSION - PURCHASE OF ASSETS

On February 28, 2005, NAGalv-Ohio, Inc., a subsidiary of North American Galvanizing Company, purchased certain galvanizing assets of Gregory Industries, Inc., located in Canton, Ohio, for a cash purchase price of $3.7 million plus approximately $0.5 million in purchase related expenses. The purchase expands the service area of North American Galvanizing into the northeast region of the United States. The results of the operations of NAGalv-Ohio, Inc. have been included in the consolidated financial statements since February 28, 2005. Goodwill of less than $0.1 million was recognized in the purchase. The net purchase price was allocated as follows:

Current assets	$1.8 million
Net property, plant & equipment	2.3
Goodwill	0.1
Purchase price	$4.2 million

Pro-forma unaudited results of operations of the Company for the three-month period ended September 30, 2004 and nine-month periods ended September 30, 2005 and 2004, prepared as if the purchase had taken place at the beginning of each period, would have been as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Dollars in Thousands	2005	2004	2005	2004
Sales	$12,687	$11,169	$35,872	$31,936
Net Income	179	588	270	789
Earnings per share:				
Basic	$ .03	.09	$ .04	$ .12
Diluted	$ .02	.08	$ .04	$ .11

NOTE 3. STOCK OPTIONS

The Company accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized for stock option awards. Had compensation cost for the Company's stock option plans been determined according to the methodology of Statement of Financial Accounting Standards No.123, "Accounting for Stock Based Compensation" ("SFAS No. 123"), the Company's pro forma net earnings and basic and diluted earnings per share for the three and nine months ended September 30, 2005 and 2004 would have been as follows:

	Three Months Ended September 30	
(Dollars in Thousands, Except per Share Amounts)	2005	2004
Net Income, as reported	$ 179	$ 229
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of tax	$ (24)	$ (13)

Pro forma net income	$ 155	$ 216
Earnings per share:		
Basic - as reported	$ .03	$ .03
Basic - pro forma	$ .02	$ .03
Diluted - as reported	$ .02	$ .03
Diluted - pro forma	$ .02	$ .03

	Nine Months Ended September 30	
(Dollars in Thousands, Except per Share Amounts)	2005	2004
Net Income, as reported	$ 390	$ 545
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of tax	$ (39)	$ (20)
Pro forma net income	$ 351	$ 525
Earnings per share:		
Basic - as reported	$ .06	$ .08
Basic - pro forma	$ .05	$ .08
Diluted - as reported	$ .05	$ .07
Diluted - pro forma	$ .05	$ .07

The fair value of options granted under the Company's stock option plans was estimated using the Black-Scholes option-pricing model with the following assumptions used:

	Three Months Ended September 30		Nine Months Ended September 30	
Dollars in Thousands	2005	2004	2005	2004
Volatility	47%	43%	47%	43%
Discount Rate	4.18%	4.08%	4.19%	4.08%
Dividend Yield	0%	0%	0%	0%
Fair Value	$1.25	$1.20	$1.48	$1.11

In the first nine months of 2005, the Company issued stock options for 140,000 shares at $2.33 per share. The Company issued stock options for 50,000 shares at $1.84 per share in the first nine months of 2004.

In December 2004, the FASB issued SFAS No. 123(R), which is a revision of SFAS No. 123. This revised statement establishes accounting standards for all

transactions in which an entity exchanges its equity instruments for goods and services focusing primarily on accounting for transactions with employees and carrying forward prior guidance for share-based payments for transactions with non-employees.

SFAS No. 123(R) eliminates the intrinsic value measurement method of accounting in APB Opinion 25 and generally requires measuring the cost of the employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such costs must be recognized over the period during which an employee is required to provide service in exchange for the award. The standard also requires estimating the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The effective date of SFAS No. 123(R) was originally to be the first reporting period beginning after June 15, 2005, however in April 2005, the Securities and Exchange Commission adopted a new rule amending the effective date to January 1, 2006. The Company expects to adopt SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123(R) for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123(R). Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. The Company plans to adopt SFAS No. 123(R) under the modified prospective method on January 1, 2006 and currently estimates the adoption to have a similar effect on the consolidated financial statements of the Company as reflected in the above tabular information.

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NOTE 4. INCOME PER COMMON SHARE

Basic earnings per common share for the periods presented are computed based upon the weighted average number of shares outstanding, adjusted for stock unit grants. Diluted earnings per common share for the periods presented are based on the weighted average shares outstanding, adjusted for stock unit grants and for the assumed exercise of stock options and warrants using the treasury stock method.

Three Months Ended September 30	Number of Shares	
	2005	2004
Basic	6,909,360	6,787,297
Diluted	7,626,642	7,493,574

Nine Months Ended September 30	Number of Shares	
	2005	2004
Basic	6,857,820	6,788,540
Diluted	7,584,103	7,488,701

The options excluded from the calculation of diluted earnings per share, due to the option price being higher than the share market value, are 295,000 and 296,500 at September 30, 2005 and 2004, respectively.

NOTE 5. LONG-TERM OBLIGATIONS

(Dollars in Thousands)	September 30 2005	December 31 2004
Revolving line of credit	$ 4,784	$ 4,919
Term loan	4,585	3,013
9.5% note due 2015	19	19
	$ 9,388	$ 7,951
Less current portion	(716)	(604)
	$ 8,672	$ 7,347

In February 2005, the Company amended a three-year bank credit agreement that was scheduled to expire in December 2007 and extended its maturity to February 28, 2008. Subject to borrowing base limitations, the amended agreement provides (i) an $8,000,000 maximum revolving credit facility for working capital and general corporate purposes and (ii) a $5,001,000 term loan that combined the outstanding principal balance of the existing term loan with additional financing for the purchase of assets of a galvanizing facility (Note 2).

Term loan payments are based on a seven-year amortization schedule with equal monthly payments of principal and interest, and a final balloon payment in February 2008. The term loan may be prepaid without penalty. The revolving line of credit may

be paid down without penalty, or additional funds may be borrowed up to the maximum line of credit. At September 30, 2005, the Company had unused borrowing capacity of $2,816,000 under the line of credit, based on the underlying borrowing base of accounts receivable and inventory. At September 30, 2005, $9,369,000 was outstanding under the bank credit agreement, and $400,000 was reserved for outstanding irrevocable letters of credit to secure payment of current and future workers' compensation claims.

Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAG. Amounts borrowed under the agreement bear interest at the prime rate of JPMorgan Chase Bank or the LIBOR rate, at the option of the Company, subject to a rate margin adjustment determined by the Company's consolidated debt service coverage ratio. The interest rate on these borrowings was 7.0% at September 30, 2005. In the event the Company fails to maintain a consolidated debt service coverage ratio for any fiscal quarter of at least 1.25 to 1.00, the Applicable LIBOR Rate Margin will be increased from 3.0% to 5.75% and the Applicable Prime Rate Margin will be increased from .25% to 3.00%. Thereafter, the increased rate margin will remain in effect until such time as the Company has maintained a consolidated debt service coverage ratio greater than or equal to 1.25 to 1.00 for a subsequent fiscal quarter.

In the event the Company fails to maintain a consolidated EBITDA to capital expenditures plus current maturity of long-term debt ratio for any fiscal quarter of not less than 1.00 to 1.00, the increase in the Applicable LIBOR Rate Margin ranges from 3.75% to 5.75%, and the increase in the Applicable Prime Rate Margin ranges from 1.00% to 3.00%.

The credit agreement requires the Company to maintain compliance with covenant limits for current ratio, debt to tangible net worth ratio, debt service coverage ratio and a capital expenditures ratio. At September 30, 2005, the Company was in compliance with the covenants. The actual financial ratios compared to the required ratios, were as follows: Current Ratio - actual 2.09 vs. minimum required of 1.10; Debt to Tangible Net Worth - actual 1.39 vs. maximum permitted of 2.5; Debt Service Coverage - actual 1.75 vs. minimum permitted of 1.25; Capital Expenditures Ratio - actual 1.36 vs. minimum required of 1.0.

NOTE 6. COMMITMENTS AND CONTINGENCIES

The Company has commitments with domestic and foreign zinc producers and brokers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment or are based on such quoted prices at the time of delivery. At September 30, 2005 the aggregate commitments for the procurement of zinc at fixed prices were approximately $6.1 million. The Company reviews these fixed price contracts for losses using the same methodology employed to estimate the market value of its zinc inventory. The Company had unpriced commitments for the purchase of approximately 534 thousand pounds of zinc at September 30, 2005.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company expects to continue evaluating hedging instruments to minimize the impact of zinc price fluctuations. The Company had no derivative instruments required to be reported at fair value at September 30, 2005 or December 31, 2004, and did not utilize derivatives in the nine-month period ended September 30, 2005 or the year ended December 31, 2004, except for the forward purchase agreements described above, which are accounted for as normal purchases.

The Company's total off-balance sheet contractual obligations at September 30, 2005, consist of approximately $2.5 million for long-term operating leases for vehicles, office space, office equipment, galvanizing facilities and galvanizing equipment and approximately $6.1 million for zinc purchase commitments. The various leases for galvanizing facilities, including option renewals, expire from 2005 to 2017. A lease for galvanizing equipment expires in 2007.

NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. Since then approximately 30 additional PRPs have been identified by the IEPA. A number of the PRPs (approximately 12 to 15) have agreed to work together and with IEPA on a voluntary basis. The Company has been and continues to participate in this volunteer group. The group has retained consultants and legal representatives familiar with IEPA regulations. This volunteer group, with its consultants, has cooperated with IEPA in attempting to better define the environmental issues associated with the Sandoval Zinc site. To that extent, this voluntary group prepared and submitted to IEPA in August 2000 a work plan. The purpose of this work plan is to attempt to define the extent of environmental remediation that might be required, assess risks, and

review alternatives to addressing potential remediation. The IEPA has yet to respond to this proposed work plan or suggest any other course of action, and there has been no activity in regards to this issue during 2005. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time.

On August 30, 2004, the Company was informed by counsel for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") that the Water District had, on August 25, 2004 filed a Second Amended Complaint in the United States District Court, Northern District of Illinois, Eastern Division, naming North American Galvanizing & Coatings, Inc. (formerly known as Kinark Corporation) as an added defendant. Counsel for the Water District also gave the Company notice of the Water District's intent to file (or amend the Complaint to include) a Citizens Suit under the Resource Compensation and Recovery Act ("RCRA") against North American Galvanizing & Coatings, Inc., pursuant to Section 7002 of RCRA, 42 U.S.C. Section 6972. This Second Amended Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of $1,810,463 and other undetermined amounts against Lake River Corporation and Lake River Holding Company, Inc. in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. Lake River Corporation conducted business as a subsidiary of the Company until September 30, 2000, at which time Lake River Corporation was sold to Lake River

Holding Company, Inc. and ceased to be a subsidiary of the Company. The Second Amended Complaint asserts that prior to the sale of Lake River Corporation, the Company directly operated the Lake River facility and, accordingly, seeks to have the Court pierce the corporate veil of Lake River Corporation and enforce the default judgment order of August 12, 2004 against the Company. The Company denies the assertions set forth in the Water District's Complaint and on November 13, 2004 filed a partial motion for dismissal of the Second Amended Complaint.

In December 2004, the Water District filed a Third Amended complaint in the litigation, adding two claims: (1) a common law claim for nuisance; and (2) a claim under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), in which the Water District argues that the Company is responsible for conditions on the plaintiff's property that present an "imminent and substantial endangerment to human health and the environment." In January 2005 and March 2005, the Company filed partial motions to dismiss plaintiff's third amended complaint, in the United States District Court, Northern District of Illinois, Eastern Division. On April 12, 2005, the Court issued an order denying in part and granting in part the Company's partial motion to dismiss plaintiff's third amended complaint. The Company has filed an appeal with the Seventh Circuit Court of Appeals requesting dismissal of the Third Amended complaint. The Company has denied any liability with respect to this claim and intends to vigorously defend this case. At this time, the Company has not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

The lease term of a galvanizing facility occupied by Reinforcing Services, Inc. ("RSI"), a subsidiary of North American Galvanizing Company, expired July 31, 2003 and has not been renewed. RSI has exercised an option to purchase the facility, and the landlord is contesting the Company's right to exercise this option. RSI has filed a lawsuit against the landlord seeking enforcement of the right to exercise the option. This litigation is in the discovery stage and management expects there will be no disruption to its galvanizing business being conducted at the facility.

The Company will continue to have additional environmental compliance costs associated with operations in the galvanizing business. The Company is committed to complying with the environmental legislation and regulations affecting its operations. Due to the uncertainties associated with future environmental technologies, regulatory interpretations, and prospective legislative activity, management cannot reasonably quantify the Company's potential future costs in this area.

The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

Various litigation arising in the ordinary course of business is pending against the Company. Management believes that resolution of the Company's other litigation and environmental matters should not materially affect the Company's consolidated

financial position or liquidity. Should future developments cause the Company to record an additional liability for environmental matters, litigation or customer claims, the recording of such a liability could have a material impact on the results of operations for the period involved.

NOTE 7. TREASURY STOCK

The Company issued 50,000 shares from Treasury during the first nine months of 2005. In the first quarter of 2005, a program whereby Outside Directors received shares of Company stock issued from Treasury as payment for their quarterly board fee was replaced with a Director Stock Unit Program (Note 8). In the first nine months of 2004, the Company issued 32,129 shares of its common stock from Treasury to outside Directors of the Company as payment for their quarterly board fee in lieu of cash payments. Those shares were valued at the average closing price of North American Galvanizing & Coatings, Inc. common stock for a prior 30-day period, as reported by the American Stock Exchange. Such shares were issued pursuant to the Directors' prior election and notice to the Company to receive up to all of their 2004 quarterly board fees in the Company's stock in lieu of cash.

NOTE 8. DIRECTOR STOCK UNIT PROGRAM

On January 1, 2005, the Company implemented the Director Stock Unit Program (approved by the stockholders at the Annual Meeting held July 21, 2004) under which a Director is required to defer 50% of his or her board fee and may elect to defer up to 100% of his or her board fee, plus a matching contribution by the Company that varies from 25% to 75% depending on the level of deferral. Such deferrals are converted into a stock unit grant, payable to the Director five years following the year of deferral. All of the Company's Outside Directors have elected to defer 100% of the annual board fee for 2005, and the Company's chief executive officer and Inside Director has elected to defer a corresponding amount of his salary in 2005. Outside Directors currently receive an annual fee of $20,000, which includes attendance at board meetings and service on committees of the board. In the first nine months of 2005, fees and salary deferred by the Directors represented a total of 79,640 stock unit grants valued at $2.20 per stock unit. The value of a stock unit grant is the average of the closing prices for a share of the Company's stock for the 10 trading days before the date the director fees otherwise would have been payable in cash.

NOTE 9. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

A subsidiary of North American Galvanizing Company (NAGalv-Ohio, Inc.) purchased

the after-fabrication hot dip galvanizing assets of Gregory Industries, Inc. located in Canton, Ohio on February 28, 2005. Gregory Industries, Inc. is a manufacturer of products for the highway industry. T. Stephen Gregory, appointed a director of North American Galvanizing & Coatings, Inc. on June 22, 2005 is the chief executive officer, chairman of the board, and a shareholder of Gregory Industries, Inc. Total sales to Gregory Industries, Inc. for the nine-month period ended September 30, 2005 were approximately $1,018,000. Sales to Gregory Industries, Inc. include revenues associated with activities performed for Gregory Industries on an interim basis that are expected to be assumed by Gregory Industries, Inc. on January 1, 2006.

North American Galvanizing & Coatings, Inc. and Subsidiary
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

North American Galvanizing is a leading provider of corrosion protection for iron and steel components fabricated by its customers. Hot dip galvanizing is the process of applying a zinc coating to fabricated iron or steel material by immersing the material in a bath consisting primarily of molten zinc. Based on the number of its operating plants, the Company is one of the largest merchant market hot dip galvanizing companies in the United States.

During the nine-month period ended September 30, 2005, there were no significant changes to the Company's critical accounting policies previously disclosed in Form 10-K for the year ended December 31, 2004.

On February 28, 2005, NAGalv-Ohio, Inc., a subsidiary North American Galvanizing Company, purchased the hot-dip galvanizing assets of a galvanizing facility located in Canton, Ohio. The transaction was structured as an asset purchase, pursuant to an Asset Purchase Agreement dated February 28, 2005 by and between NAGalv-Ohio, Inc., and the privately owned Gregory Industries, Inc. for all of the plant, property and equipment of Gregory Industries' after-fabrication hot dip galvanizing operation. Sales for the Canton galvanizing operation for its most recent fiscal year ended May 28, 2004 were approximately $7.0 million. Operating results of the purchased galvanizing business are included in the Company's financial statements commencing from the date of the purchase on February 28, 2005.

The Company's galvanizing plants offer a broad line of services including centrifuge galvanizing for small threaded products, sandblasting, chromate quenching, polymeric coatings, and proprietary INFRASHIELDSM Coating Application Systems for polyurethane protective linings and coatings over galvanized surfaces. The Company's engineers and plant managers collaborate with steel fabricators and design and engineering firms to provide customized assistance with initial fabrication design, project estimates and steel chemistry selection.

The Company's galvanizing and coating operations are composed of eleven facilities located in Colorado, Kentucky, Missouri, Ohio, Oklahoma, Tennessee and Texas. These facilities operate galvanizing kettles ranging in length from 16 feet to 62 feet, and have lifting capacities ranging from 12,000 pounds to 40,000 pounds.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level. In a typical year, the Company will galvanize in excess of 300,000,000 pounds of steel products for approximately 1,800 customers nationwide.

All of the Company's sales are generated for domestic customers whose end markets are principally in the United States. The Company markets its galvanizing and coating

services directly to its customers and does not utilize agents or distributors. Although hot dip galvanizing is considered a mature service industry, the Company is actively engaged in developing new markets through participation in industry trade shows, metals trade associations and presentation of technical seminars by its national marketing service team.

Hot dip galvanizing provides metals corrosion protection for many product applications used in commercial, construction and industrial markets. The Company's galvanizing can be found in almost every major application and industry that requires corrosion protection where iron or steel is used, including the following end user markets:

- highway and transportation,
- power transmission and distribution,
- wireless and telecommunications,
- utilities,
- petrochemical processing,
- infrastructure including buildings, airports, bridges and power generation
- industrial grating,
- wastewater treatment; fresh water storage and transportation
- pulp and paper,
- pipe and tube,
- food processing,
- agricultural (irrigation systems)
- recreation (boat trailers, marine docks, stadium scaffolds)
- bridge and pedestrian handrail
- commercial and residential lighting poles
- original equipment manufactured products, including general fabrication

As a value-added service provider, the Company's revenues are directly influenced by the level of economic activity in the various end markets that it serves. Economic activity in those markets that results in the expansion and/or upgrading of physical facilities (i.e., construction) may involve a time-lag factor of several months before translating into a demand for galvanizing fabricated components. Despite the inherent seasonality associated with large project construction work, the Company maintains a relatively stable revenue stream throughout the year by offering fabricators, large and small, reliable and rapid turn-around service.

The Company records revenues when the galvanizing process is complete. The Company generates all of its operating cash from such revenues, and utilizes a line of credit secured by the underlying accounts receivable and zinc inventory to facilitate working capital needs.

Each of the Company's galvanizing plants operate in a highly competitive environment underscored by pricing pressures, primarily from other public and privately-owned galvanizers and alternative forms of corrosion protection, such as paint. The Company's long-term response to these challenges has been a sustained strategy focusing on providing a reliable quality of galvanizing to industry ASTM specifications and rapid turn-around time on every project, large and small. Key to the success of this

strategy is the Company's continuing commitment and long-term record of reinvesting earnings to upgrade its galvanizing facilities and provide technical innovations to improve production efficiencies; and to construct new facilities when market conditions present opportunities for growth. The Company is addressing long-term opportunities to expand its galvanizing and coatings business through programs to increase industry awareness of the proven, unique benefits of galvanizing for metals corrosion protection. Each of the Company's galvanizing plants is linked to a centralized control system involving sales order entry, facility maintenance and operating procedures, quality assurance, purchasing and credit and accounting that enable the plant to focus on providing galvanizing and coating services in the most cost-effective manner.

The principal raw materials essential to the Company's galvanizing and coating operations are zinc and various chemicals which are normally available for purchase in the open market.

KEY INDICATORS

Key industries which historically have provided the Company some indication of the potential demand for galvanizing in the near-term, (i.e., primarily within a year) include highway and transportation, power transmission and distribution, telecommunications and the level of quoting activity for regional metal fabricators. In general, growth in the commercial/industrial sectors of the economy generates new construction and capital spending which ultimately impacts the demand for galvanizing.

Key operating measures utilized by the Company include new orders, zinc inventory, tons of steel galvanized, revenue, pounds and labor costs per hour, zinc usage related to tonnage galvanized, and lost-time safety performance. These measures are reported and analyzed on various cycles, including daily, weekly and monthly.

The Company utilizes a number of key financial measures to evaluate the operations at each of its galvanizing plants, to identify trends and variables impacting operating productivity and current and future business results, which include: sales, gross profit, fixed and variable costs, selling and general administrative expenses, operating cash flows, capital expenditures, interest expense, and a number of ratios such as profit from operations and accounts receivable turnover. These measures are reviewed by the Company's operating and executive management monthly, or more frequently, and compared to prior periods, the current business plan and to standard performance criteria, as applicable.

KEY DEVELOPMENTS

In the last three years, the Company reported a number of developments supporting its strategic program to reposition its galvanizing business in the national market.

In February 2005, the Company expanded galvanizing operations into the northeast region of the United States with the purchase of the assets of a galvanizing facility located in Canton, Ohio. This strategic expansion provides NAG an important, established customer base of major fabricators serving industrial, OEM, and highway markets as well as residential and commercial markets for lighting poles. Canton's 52 foot long dipping

kettle is designed to handle large steel structures, such as bridge beams, utility poles and other steel structural components that require galvanizing for extended-life corrosion protection. The Canton plant also processes small parts

used in construction, such as nuts and anchor rods, in a dedicated facility with a smaller 16 foot dipping kettle and a spinner operation.

In January 2003, the Company opened its St. Louis galvanizing plant, replacing a small plant at the same location. This large facility is providing NAG a strategic basis for extending its geographic area of service. A 51-foot kettle at this facility provides the largest galvanizing capacity in the St. Louis region. In 2004, production tonnage at St. Louis more than doubled compared to production at the plant it replaced.

In January 2003, the Company expanded services at its Nashville galvanizing plant with the installation of a state-of-the-art Spinner line to galvanize small products, including bolts and threaded material.

In the third quarter of 2002, the Company announced the introduction of INFRASHIELDSM Coating, a specialty polymer coating system that is designed to be applied over hot dip galvanized material slated for harsh operating conditions. The INFRASHIELDSM coating technology results in superior corrosion protection by combining cathodic protection with a non-conductive coating.

RESULTS OF OPERATIONS

The following table shows the Company's results of operations for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30			
	2005		2004	
(Dollars in Thousands)	Amount	% of Sales	Amount	% of Sa
Sales	$ 12,687	100.0%	$ 9,348	100
Cost of sales	9,721	76.6%	6,725	71
Gross profit	2,966	23.4%	2,623	28
Selling, general & administrative expenses	1,778	14.0%	1,370	14
Depreciation and amortization	600	4.7%	686	7
Operating income	588	4.6%	567	6
Interest expense, net	285	2.2%	198	2
Other	--	--	--	
Income before income taxes	303	2.4%	369	3
Income tax expense	124	1.0%	140	1
Net Income	$ 179	1.4%	$ 229	2

Nine Months Ended September 30	
2005	2004

(Dollars in Thousands)	Amount	% of Sales	Amount	% of Sa
Sales	$ 34,768	100.0%	$ 27,239	100
Cost of sales	26,254	75.5%	19,365	71
Gross profit	8,514	24.5%	7,874	28
Selling, general & administrative expenses	5,209	15.0%	4,387	16
Depreciation and amortization	1,865	5.4%	2,068	7
Operating income	1,440	4.1%	1,419	5
Interest expense, net	788	2.3%	565	2
Other	--	--	(25)	(0.
Income before income taxes	652	1.9%	879	3
Income tax expense	262	.8%	334	1
Net Income	$ 390	1.1%	$ 545	2

2005 COMPARED TO 2004

Sales. Sales for the three-months and nine-months ended September 30, 2005 increased 36% and 28%, respectively, over the prior year due primarily to contribution from the Canton, Ohio galvanizing facility that was purchased February 28, 2005. Same plant revenues for the third quarter and first nine months improved 13% and 8%, respectively, over the same periods in 2004. North American Galvanizing's existing plants started the year with a period of slow demand in the first two months. A general increase in demand from fabricators led to a positive trend in existing plant revenues continuing into the second and third quarters of 2005.

In the three-months and nine-months ended September 30, 2005, average selling prices for galvanizing and related coating services remained relatively even with the average selling prices in the same periods for 2004. General price increases were communicated to customers during the third quarter. Although prices at the end of the third quarter were on average 5% higher than prices at the beginning of the quarter, the full impact of the price increases will not be reflected in results until the fourth quarter of 2005.

Gross Profit. The gross profit percentage decreased 4.7% and 4.4%, for the three-months and nine-months ended September 30, 2005 and 2004, respectively.

Higher zinc and natural gas costs in 2005 were responsible for most of the decrease in gross profit percentage. The impact of year over year higher costs on the third quarter was a decrease in margin of 3.1% and on the nine-month period ended September 30, a decrease in margin of 2.9%. Due to higher material and energy costs, customer pricing was increased during the quarter. The full impact of increases in average selling price will not be reflected in gross profit until the fourth quarter.

The remaining decrease in gross profit as a percent of sales was due to increased costs in the Canton, Ohio galvanizing facility compared to existing

plants. The primary difference in costs is higher labor costs at the Ohio plant. As part of the transition program started with the February 28, 2005 purchase, management is focused on improving labor efficiency, measured by pounds-per-man-hour and cost-per-man-hour, at this facility.

Depreciation Expense. Depreciation expense for the third quarter of 2005 decreased $86,000, or 12.5%, to $600,000 compared to $686,000 for the third quarter of 2004. Depreciation expense for the first nine months of 2005 decreased $203,000, or 9.8% to $1,865,000. The decrease for 2005 relates primarily to assets becoming fully depreciated, partially offset by increased depreciation expense for the Canton, Ohio galvanizing plant and equipment.

Selling, General and Administrative (SG&A) Expenses. SG&A increased $408,000, or 29.8%, in the third quarter of 2005 to $1,778,000 compared to $1,370,000 in the third quarter of 2004. For the first nine months, SG&A increased $822,000, or 18.7%, to $5,209,000 compared to $4,387,000 in the first nine months of 2004.

Forty-four percent of the $408,000 increase for third quarter 2005 is due to selling, general and administrative costs related to the Canton, Ohio galvanizing facility acquired in early 2005, forty percent due to legal fees related to the Lake River lawsuit, and sixteen percent due to higher group health costs for administrative personnel.

Forty-six percent of the $822,000 increase for the nine months ended September 30, 2005 is due to selling, general and administrative costs related to the Canton, Ohio galvanizing facility, twenty-one percent due to legal fees related to the Lake River lawsuit, sixteen percent due to audit and tax fees and professional fees related to compliance with Sarbanes Oxley 404 requirements, twelve percent due to increased Board of Director fees, and five percent due to other increases.

Interest Expense. Interest expense increased to $285,000 and $788,000 in the third quarter and first nine months of 2005, respectively, from $198,000 and $565,000 in 2004, primarily due to higher interest rates on variable-rate debt and higher debt related to the purchase of a galvanizing facility in the first quarter of 2005.

Income Taxes. The Company's effective income tax rates for the third quarter of 2005 and 2004 were 40.9% and 37.9%, respectively. For the nine months ended September 30, 2005 and 2004, the effective tax rates were 40.1% and 38.0%, respectively. The effective tax rates differ from the federal statutory rate primarily due to state income taxes and minor adjustments to previous tax estimates based on actual tax returns filed.

Net Income. For the third quarter of 2005, the Company reported net income of $179,000 compared to net income of $229,000 for the third quarter of 2004. For the nine months ended September 30, 2005, the net income was $390,000, compared to $545,000 for the nine months ended September 30, 2004. The decrease in net income is primarily a result of the increase in raw material and energy costs from the first nine months of 2004 to the first nine months of 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations and borrowings under credit facilities have consistently been adequate to fund its current facilities working capital and capital spending requirements. During the nine-month periods ended September 30, 2005 and 2004, operating cash flow and borrowings under credit facilities have been the primary sources of liquidity. The Company monitors working capital and planned capital spending to assess liquidity and minimize cyclical cash

flow.

Cash flow from operating activities for the first nine months of 2005 and 2004 was $4,230,000 and $1,417,000 respectively. The increase of $2,813,000 in 2005 cash flow from operations was due primarily to changes in working capital and cash refunds from utilization of tax net operating loss carrybacks.

Cash of $4,794,000 used in 2005 investing activities through September 30 consisted of $4,188,000 to acquire certain assets of Gregory Industries' Inc. and capital expenditures of $606,000 for equipment to maintain galvanizing facilities. Capital expenditures of $1,129,000 for the comparable nine-month period of 2004 were for equipment to maintain galvanizing facilities, offset by proceeds of $92,000 from the sale of investment securities. For the remainder of 2005, expected capital expenditures of approximately $790,000 are budgeted for the Company's existing galvanizing facilities.

Total debt (current and long-term obligations) increased $936,000 to $16,489,000 in the nine months ended September 30, 2005. Financing activities for this period of 2005 included proceeds from the sale of treasury stock of $100,000, payments of $516,000 to a bond sinking fund, proceeds of $17,469,000 from a bank line of credit and term loan, and payments of $16,017,000 on the bank line of credit and term loans.

In February 2005, the Company amended a three-year bank credit agreement that was scheduled to expire in December 2007 and extended its maturity to February 28, 2008. Subject to borrowing base limitations, the amended agreement provides (i) an $8,000,000 maximum revolving credit facility for working capital and general corporate purposes, and (ii) a $5,001,000 term loan.

At September 30, 2005, $9,369,000 was outstanding under the bank credit agreement, and $400,000 was reserved for outstanding irrevocable letters of credit for workers' compensation insurance coverage. The Company's commitment to repay the remaining balance of $6,110,000 of tax-exempt adjustable rate industrial revenue bonds issued in 2000 is fully secured by an irrevocable letter of credit issued by Bank One Oklahoma, N.A., in favor of Bank One Trust Company. At September 30, 2005, the Company had $2,816,000 available borrowing capacity, net of outstanding letters of credit, under its revolving line of credit based on the borrowing base calculated under the agreement. The Company believes that its ability to continue to generate cash from operations and its bank credit facilities will provide adequate capital resources and liquidity to support operations and capital expenditures plans for 2005.

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The Company has various commitments primarily related to long-term debt, industrial revenue bonds, operating lease commitments and zinc purchase commitments. The Company's off-balance sheet contractual obligations at September 30, 2005, consist of $1,729,000 for long-term operating leases for office space, galvanizing facilities and galvanizing equipment, $743,000 for vehicle and office equipment operating leases and approximately $6.1 million for zinc purchase commitments. The various leases for galvanizing facilities, including option renewals, expire from 2005 to 2017. A lease for galvanizing equipment expires in 2007. The vehicle and office equipment leases expire on various dates through 2010. NAG periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc are typically up to one year.

ENVIRONMENTAL MATTERS

The Company's facilities are subject to extensive environmental legislation and

regulations affecting their operations and the discharge of wastes. The cost of compliance with such regulations in the first nine months of 2005 and 2004 was approximately $953,000 and $703,000, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. Since then approximately 30 additional PRPs have been identified by the IEPA. A number of the PRPs (approximately 12 to 15) have agreed to work together and with IEPA on a voluntary basis. The Company has been and continues to participate in this volunteer group. The group has retained consultants and legal representatives familiar with IEPA regulations. This volunteer group, with its consultants, has cooperated with IEPA in attempting to better define the environmental issues associated with the Sandoval Zinc site. To that extent, this voluntary group prepared and submitted to IEPA in August 2000 a work plan. The purpose of this work plan is to attempt to define the extent of environmental remediation that might be required, assess risks, and review alternatives to addressing potential remediation. The IEPA has yet to respond to this proposed work plan or suggest any other course of action, and there has been no activity in regards to this issue during 2005. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time.The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present, and future operations. Management is committed to discovering and addressing environmental issues as they arise. Because of the frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations include managing market risks related to changes in interest rates and zinc commodity prices.

Interest Rate Risk. The Company is exposed to financial market risk related to changes in interest rates. Changing interest rates will affect interest paid on the Company's variable rate debt. At September 30, 2005, the Company's outstanding debt of $16,489,000, net of an $8,700 discount, consisted of the following: Variable rate debt aggregating $9,369,000 under the bank credit agreement, with an effective rate of 7.0%; variable rate debt of $6,110,000 under the industrial revenue bond agreement, with an effective rate of 3.5%; and, fixed rate debt consisting of $1,000,000 face value of 10% subordinated promissory notes and a 9.5% term note of $19,000. The borrowings under all of the Company's debt obligations at September 30, 2005 are due as follows: $1,076,000 in 2005; $2,445,000 in 2006; $1,481,000 in 2007 and $11,487,000 in years 2008 through 2013. Each increase of 10 basis points in the effective interest rate would result in an annual increase in interest charges on variable rate debt of approximately $15,500 based on September 30, 2005 outstanding borrowings. The actual effect of changes in interest rates is dependent on actual amounts outstanding under the various loan agreements. The Company monitors interest rates and has sufficient flexibility to renegotiate the loan agreement, without penalty, in the event market conditions and interest rates change.

Zinc Price Risk. NAG periodically enters into fixed price purchase commitments

with domestic and foreign zinc producers to purchase a portion of its zinc requirements for its hot dip galvanizing operations. Commitments for the future delivery of zinc, typically up to one (1) year, reflect rates quoted on the London Metals Exchange. At September 30, 2005, the aggregate fixed price commitments for the procurement of zinc were approximately $6.1 million. With respect to these zinc fixed price purchase commitments, a hypothetical decrease of 10% in the market price of zinc from the September 30, 2005 level represented a potential lost gross margin opportunity of approximately $610,000.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company recognizes that hedging instruments may be effective in minimizing the impact of zinc price fluctuations. The Company's current zinc forward purchase commitments (Note 6) are considered derivatives, but the Company has elected to account for these purchase commitments as normal purchases.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

During the nine-months ended September 30, 2005, the Company purchased the assets of a galvanizing business located in Canton, Ohio and undertook a review and evaluation of that operation's internal controls over financial reporting, including the implementation of a number of controls consistent with its established galvanizing operations. The Company will continue to integrate this acquired business into its internal control over financial reporting.

There have been no other significant change in our internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. There were no significant deficiencies or material weaknesses identified in the evaluation, and therefore, no corrective actions were taken.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

On August 30, 2004, the Company was informed by counsel for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") that the Water District had, on August 25, 2004 filed a Second Amended Complaint in the United States District Court, Northern District of Illinois, Eastern Division, naming North American Galvanizing & Coatings, Inc. (formerly known as Kinark Corporation) as an added defendant. Counsel for the Water District also gave the Company notice of the Water District's intent to file (or amend the Complaint to include) a Citizens Suit under the Resource Compensation and Recovery Act ("RCRA") against North American Galvanizing & Coatings, Inc., pursuant to Section 7002 of RCRA, 42 U.S.C. Section 6972. This Second Amended Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of $1,810,463 and other undetermined amounts against Lake River Corporation and Lake River Holding Company, Inc. in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. Lake River Corporation conducted business as a subsidiary of the Company until September 30, 2000, at which time Lake River Corporation was sold to Lake River Holding Company, Inc. and ceased to be a subsidiary of the Company. The Second Amended Complaint asserts that prior to the sale of Lake River Corporation, the Company directly operated the Lake River facility and, accordingly, seeks to have the Court pierce the corporate veil of Lake River Corporation and enforce the default judgment order of August 12, 2004 against the Company. The Company denies the assertions set forth in the Water District's Complaint and on November 13, 2004 filed a partial motion for dismissal of the Second Amended Complaint.

In December 2004, the Water District filed a Third Amended complaint in the litigation, adding two claims: (1) a common law claim for nuisance; and (2) a claim under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), in which the Water District argues that the Company is responsible for conditions on the plaintiff's property that present an "imminent and substantial endangerment to human health and the environment." In January 2005 and March 2005, the Company filed partial motions to dismiss plaintiff's third amended complaint, in the United States District Court, Northern District of Illinois, Eastern Division. On April 12, 2005, the Court issued an order denying in part and granting in part the Company's partial motion to dismiss plaintiff's third amended complaint. The Company has filed an appeal with the Seventh Circuit Court of Appeals requesting dismissal of the Third Amended complaint. The Company has denied any liability with respect to this claim and intends to vigorously defend this case. At this time, the Company has not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

The lease term of a galvanizing facility occupied by Reinforcing Services, Inc. ("RSI"), a subsidiary of North American Galvanizing Company, expired July 31,

2003 and has not been renewed. RSI has exercised an option to purchase the facility, and the landlord is contesting the Company's right to exercise this option. RSI has filed a lawsuit against the landlord seeking enforcement of the right to exercise the option. This litigation is in the discovery stage and management expects there will be no disruption to its galvanizing business being conducted at the facility.

Item 2. Changes in Securities and Use of Proceeds - Not applicable.

Item 3. Defaults Upon Senior Securities - Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders - Not applicable.

Item 5. Other Information - Not applicable.

Item 6. Exhibits.

(a) Exhibits

3.1 The Company's Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (Reg. No. 333-4937) filed on June 7, 1996).

3.2 The Company's Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated September 30, 1996).

10.5 Director Stock Unit Program.

10.6 Trust under the North American Galvanizing & Coatings, Inc. Director Stock Unit Program.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of of 2002.

32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99 Cautionary Statements by the Company Related to Forward-Looking Statements.

SIGNATURES

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

NORTH AMERICAN GALVANIZING & COATINGS, INC.
(Registrant)

/s/ Beth B. Hood
Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: October 28, 2005