

MRC GLOBAL INC.
Form 10-Q
August 08, 2012
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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 JUNE 30, 2012

Or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35479

MRC GLOBAL INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

20-5956993
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

2 Houston Center, 909 Fannin, Suite 3100

Houston, Texas
(Address of Principal Executive Offices)

77010
(Zip Code)

(877) 294-7574

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The Company's common stock is traded on the New York Stock Exchange under the symbol MRC. There were 101,489,000 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of August 3, 2012.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

<i>(In thousands, except per share amounts)</i>	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash	\$ 39,995	\$ 46,127
Accounts receivable, net	879,277	791,280
Inventories, net	1,070,837	899,064
Other current assets	17,532	11,437
Total current assets	2,007,641	1,747,908
Other assets	40,709	39,212
Property, plant and equipment, net	117,942	107,430
Intangible assets:		
Goodwill, net	576,822	561,270
Other intangible assets, net	754,038	771,867
	1,330,860	1,333,137
	\$ 3,497,152	\$ 3,227,687
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	\$ 547,083	\$ 479,584
Accrued expenses and other current liabilities	100,298	108,973
Income taxes payable	7,091	11,950
Deferred revenue	4,288	4,450
Deferred income taxes	65,787	68,210
Total current liabilities	724,547	673,167
Long-term obligations:		
Long-term debt, net	1,355,122	1,526,740
Deferred income taxes	282,321	288,985
Other liabilities	17,204	17,933
	1,654,647	1,833,658
Commitments and contingencies		
Stockholders equity:		
Common stock, \$0.01 par value per share; June 2012 500,000 shares authorized, 101,489 issued and outstanding, December 2011 400,000 shares authorized, 84,427 issued and outstanding	1,015	844
Preferred stock, \$0.01 par value per share; June 2012 100,000 shares authorized, no shares issued and outstanding, December 2011 150,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	1,620,271	1,282,949
Retained (deficit)	(467,932)	(536,791)
Accumulated other comprehensive loss	(35,396)	(26,140)
	1,117,958	720,862

\$ 3,497,152 \$ 3,227,687

See notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Sales	\$ 1,430,379	\$ 1,168,039	\$ 2,813,011	\$ 2,159,852
Cost of sales	1,188,699	995,341	2,334,770	1,840,188
Gross profit	241,680	172,698	478,241	319,664
Selling, general and administrative expenses	151,189	124,052	297,573	241,409
Operating income	90,491	48,646	180,668	78,255
Other income (expense):				
Interest expense	(30,727)	(34,524)	(64,444)	(68,024)
Loss on early extinguishment of debt	(11,424)		(11,424)	
Write off of debt issuance costs		(9,450)	(1,685)	(9,450)
Change in fair value of derivative instruments	(1,200)	1,624	925	3,492
Other, net	575	857	2,322	1,062
	(42,776)	(41,493)	(74,306)	(72,920)
Income before income taxes	47,715	7,153	106,362	5,335
Income tax expense	16,390	2,475	37,503	1,785
Net income	\$ 31,325	\$ 4,678	\$ 68,859	\$ 3,550
Basic earnings per common share	\$ 0.32	\$ 0.06	\$ 0.75	\$ 0.04
Diluted earnings per common share	\$ 0.32	\$ 0.06	\$ 0.75	\$ 0.04
Weighted-average common shares, basic	98,303	84,418	91,370	84,416
Weighted-average common shares, diluted	98,726	84,605	91,743	84,602

See notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2012	2011	2012	2011
Net income	\$ 31,325	\$ 4,678	\$ 68,859	\$ 3,550
Other comprehensive (loss) income	(14,040)	2,763	(9,256)	13,230
Comprehensive income	\$ 17,285	\$ 7,441	\$ 59,603	\$ 16,780

See notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(In thousands)

	Six Months Ended			
	June 30, 2012	June 30, 2011		
Operating activities				
Net income	\$ 68,859	\$ 3,550		
Adjustments to reconcile net income to net cash provided by (used in) operations:				
Depreciation and amortization	8,550	8,165		
Amortization of intangibles	24,756	25,068		
Equity-based compensation expense	3,658	2,442		
Deferred income tax benefit	(9,523)	(5,325)		
Amortization of debt issuance costs	4,805	5,373		
Write off of debt issuance costs	1,685	9,450		
Loss on early extinguishment of debt	11,424			
Increase in LIFO reserve	18,500	27,700		
Change in fair value of derivative instruments	(925)	(3,492)		
Provision for uncollectible accounts	2,544	315		
Other non-cash items	1,573	1,148		
Changes in operating assets and liabilities:				
Accounts receivable	(63,523)	(79,305)		
Inventories	(138,161)	(73,137)		
Income taxes payable	(4,887)	2,834		
Other current assets	(6,208)	(1,511)		
Accounts payable			Deferred Income Taxes	
	40,784	39,654		
				10,139,553 9,232,302
Shareholders' Equity:				
Common Stock, \$1 Par Value, Shares Authorized-25,000,000, Shares Issued 12,609,160	12,609,160	12,609,160		
Capital In Excess of Par Value	19,757,117	18,241,664		
Retained Earnings	171,655,500	161,755,340		
Accumulated Other Comprehensive Income (Loss)	(1,191,840)	(3,198,159)		
Less Common Stock Held In Treasury, At Cost (433,715 Shares At May 31, 2009 and 464,944 Shares At February 28, 2009)	(2,142,067)	(2,296,301)		
Total Shareholders' Equity	200,687,870	187,111,704		
	\$ 360,064,828	\$ 354,715,447		

See Accompanying Notes to Condensed
Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

	THREE MONTHS ENDED	
	5/31/09 (Unaudited)	5/31/08 (Unaudited)
Net Sales	\$ 95,492,001	\$ 99,958,257
Costs and Expenses		
Cost of Sales	65,803,751	73,689,403
Selling, General and Administrative	12,123,549	9,856,521
Interest Expense	1,686,557	1,120,788
Net (Gain) Loss On Sale Or Insurance Settlement of Property, Plant and Equipment	(5,031)	2,607
Other Expense (Income)	(80,644)	(483,767)
	79,528,182	84,185,552
Income Before Income Taxes	15,963,819	15,772,705
Income Tax Expense	6,063,659	5,650,140
Net Income	\$ 9,900,160	\$ 10,122,565
Earnings Per Common Share		
Basic Earnings Per Share	\$ 0.81	\$ 0.83
Diluted Earnings Per Share	\$ 0.80	\$ 0.82

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item I. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	THREE MONTHS ENDED	
	5/31/09	5/31/08
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net Income	\$ 9,900,160	\$ 10,122,565
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Provision For Doubtful Accounts	4,944	97,330
Amortization and Depreciation	4,152,782	3,038,930
Deferred Income Tax Benefit	183,252	613,488
Net (Gain) Loss On Sale Or Insurance Settlement of Property, Plant & Equipment	(5,031)	2,607
Amortization of Deferred Borrowing Costs	76,349	-
Share Based Compensation Expense	1,348,638	752,637
Effects of Changes In Assets & Liabilities:		
Accounts Receivable	6,401,471	(20,204,960)
Inventories	4,166,208	1,741,741
Prepaid Expenses and Other	(2,162,640)	(1,895,232)
Other Assets	12,038	(2,010,886)
Net Change In Billings Related To Costs and Estimated Earnings On Uncompleted Contracts	(2,700,604)	(2,295,322)
Accounts Payable	(1,438,759)	4,543,599
Other Accrued Liabilities and Income Taxes	(6,198,969)	3,609,295
Net Cash (Used In) Provided By Operating Activities	13,739,839	(1,884,208)
Cash Flows Used For Investing Activities:		
Proceeds From Sale Or Insurance Settlement of Property, Plant, and Equipment	8,800	4,453
Purchase of Property, Plant and Equipment	(3,709,174)	(4,753,304)
Acquisition of Subsidiaries, Net of Cash Acquired	-	(81,470,840)
Net Cash Used In Investing Activities	(3,700,374)	(86,219,691)
Cash Flows From Financing Activities:		
Proceeds From Exercise of Stock Options	16,675	21,506
Excess Tax Benefits From Stock Options Exercises	48,889	72,453
Proceeds From Long Term Debt	-	100,000,000
Net Cash Provided By (Used In) Financing Activities	65,564	100,093,959
Effect of Exchange Rate Changes on Cash	25,990	-

Net Increase In Cash & Cash Equivalents	10,131,019	11,990,060
Cash & Cash Equivalents At Beginning of Period	47,557,711	2,226,941
Cash & Cash Equivalents At End of Period	\$ 57,688,730	\$ 14,217,001
Supplemental Disclosures		
Cash Paid For Interest	\$ 3,170,208	\$ 62,728
Cash Paid For Income Taxes	\$ 303,147	\$ 540,802

See Accompanying Notes to Condensed Consolidated Financial Statements

AZZ incorporated

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies.

Basis of Presentation.

These interim unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC rules and regulations referred to above. Accordingly, these financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2009 included in the Company's Annual Report on Form 10-K covering such period. For purposes of the report, "AZZ", the "Company", "we", "our", "us" or similar reference means AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year that ended February 28, 2009 is referred to as fiscal 2009.

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of May 31, 2009, and the results of its operations for the three-month periods ended May 31, 2009 and 2008, and cash flows for the three-month periods ended May 31, 2009 and 2008.

2. Earnings per Share.

Earnings per share is based on the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of stock awards.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended May 31,	
	2009	2008
	(Unaudited)	
	(\$ in thousands except share and per share data)	
Numerator:		
Net income for basic and diluted earnings per common share	\$ 9,900	\$ 10,123
Denominator:		
Denominator for basic earnings per common share –weighted average shares	12,169	12,135
Effect of dilutive securities:		
Stock options/Equity SARs and Restricted Stock	241	155
Denominator for diluted earnings per common share	12,410	12,290

Earnings per share basic and diluted:			
Basic earnings per common share	\$.81	\$.83
Diluted earnings per common share	\$.80	\$.82

3. Stock-based Compensation.

Stock Options and Other Shareholder Matters

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long-Term Incentive Plan (“2005 Plan”). The purpose of the 2005 Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees and directors restricted stock, performance awards, stock appreciation rights (“SARs” or “Stock Appreciation Rights”) and options to purchase Common Stock of the Company. This plan was amended on July 8, 2008. The maximum number of shares that may be issued under the 2005 Plan is 1 million shares.

On June 1, 2006, 234,160 SARs were issued under the 2005 Plan with an exercise price of \$11.55. As of May 31, 2009, 196,440 SARs were outstanding due to the accelerated vesting of 37,720 SARs as a result of the retirement of two directors and three employees. These awards qualify for equity treatment in accordance with FAS 123R. These stock appreciation rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met. The weighted average fair value of SARs granted on June 1, 2006 was determined to be \$2.915 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 27.81% and expected life of 3 years. Compensation expenses related to the June 1, 2006 grants of \$19,000 and \$38,000 were recognized during the period ended May 31, 2009 and 2008 respectively. As of May 31, 2009, we had no unrecognized cost related to the June 1, 2006 SAR grants.

On March 1, 2007, 147,740 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$19.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met and qualify for equity treatment under SFAS 123R. The weighted average fair value of SARs granted on March 1, 2007, was determined to be \$5.535 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 29.52% and expected life of 3 years. As of May 31, 2009, 132,200 SARs were outstanding due to the accelerated vesting of 15,540 SARs as a result of the retirement of two directors and two employees. Compensation expense related to the March 1, 2007 grants of \$26,000 and \$56,000 were recognized during the period ended May 31, 2009 and 2008 respectively. We had unrecognized cost of \$78,000 related to the March 1, 2007 SAR grants as of May 31, 2009.

On March 1, 2008, 129,800 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$35.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the plan are met and qualify for equity treatment under SFAS 123R. The weighted average fair value of SARs awarded on March 1, 2008, was determined to be \$11.80 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 41.81% and expected life of 3 years. As of May 31, 2009, 123,060 SARs were outstanding due to the forfeiture of 6,740 SARs. Compensation expense related to the March 1, 2008 grants of \$59,000 and \$659,000 were recognized during the period ended May 31, 2009 and 2008 respectively. We had unrecognized cost of \$412,000 related to the March 1, 2008 SAR grants as of May 31, 2009.

On September 1, 2008, we implemented the AZZ incorporated Employee Stock Purchase Plan (the "Plan"). The purpose of the Plan is to allow employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under the Plan have a duration of 24 months. On the first day of an offering period (the Enrollment Date), the participant is granted the option to purchase shares on each exercise date during the offering period up to 10% of the participant's compensation at the lower of 85% of the fair market value of a share of stock on the Enrollment Date or 85% of the fair market value of a share of stock on the Exercise Date. The participant's right to purchase stock in the Plan is restricted to no more than \$25,000 per calendar year. Participants may terminate their interest in a given offering, or a given exercise period, by withdrawing all, but not less than all, of the accumulated payroll deductions of the account at any time prior to the end of the offering period. The estimated shares to be issued on the first enrollment are 36,100 shares after estimated forfeitures. The weighted average fair value of these shares was determined to be \$14.69 based on the following assumptions: risk-free interest rate of 2%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expenses in the amount of \$66,000 and none were recognized during the period ended May 31, 2009 and 2008 respectively. We had unrecognized cost of \$331,000 related to the employee stock purchase plan as of May 31, 2009. In accordance with the plan 20,822 shares were issued on March 1, 2009 to the enrolled employees. On March 1, 2009, the date of the second Offering, the estimated shares to be issued were 14,019 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$7.33 based on the following assumptions: risk-free interest rate of 2%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expense in the amount of \$13,000 was recognized during the period ended May 31, 2009. We had unrecognized costs of \$90,000 related to the second issue

of the employee stock purchase plan as of May 31, 2009.

On March 2, 2009, 163,233 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$18.12. These Stock Appreciation Rights have a three year vesting schedule, but may vest early if accelerated vesting provisions in the plan are met and qualify for equity treatment under SFAS 123R. The weighted average fair value of SARs awarded on March 1, 2009, was determined to be \$8.08 based on the following assumptions: risk-free interest rate of 3%, dividend yield of 0.0%, expected volatility of 46.89% and expected life of 5 years. Compensation expense in the amount of \$812,000 was recognized during the three month period ended May 31, 2009. We had unrecognized cost of \$507,000 related to the March 1, 2009 SAR grants as of May 31, 2009.

On March 2, 2009, 31,666 shares of Restricted Stock were issued to our key employees. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was \$18.12 on the date of grant. Compensation expense in the amount of \$354,000 was recognized during the three month period ended May 31, 2009. The amount of unrecognized cost at May 31, 2009 was \$220,000.

4. Segments.

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 28, 2009. Information regarding operations and assets by segment is as follows:

	Three Months Ended May 31,	
	2009	2008
	(unaudited)	
	(\$ in thousands)	
Net Sales:		
Electrical and Industrial Products	\$ 55,386	\$ 52,006
Galvanizing Services	40,106	47,952
	\$ 95,492	\$ 99,958
Segment Operating Income (a):		
Electrical and Industrial Products	\$ 10,512	\$ 7,932
Galvanizing Services	12,793	13,358
Total Segment Operating Income	\$ 23,305	\$ 21,290
General Corporate Expense (b)		
	\$ 5,684	\$ 4,558
Interest Expense		
	1,687	1,121
Other (Income) Expense, Net (c)		
	(30)	(162)
	\$ 7,341	\$ 5,517
Income Before Taxes		
	\$ 15,964	\$ 15,773
Total Assets:		
Electrical and Industrial Products	\$ 159,785	\$ 135,565
Galvanizing Services	133,998	154,341
Corporate	66,282	23,868
	\$ 360,065	\$ 313,774

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

5. Warranty Reserves.

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

	Warranty Reserve
	(Unaudited)
	(\$ In thousands)
Balance at February 29, 2008	\$ 1,732
Warranty costs incurred	(1,454)
Additions charged to income	1,737
Balance at February 28, 2009	\$ 2,015
Warranty costs incurred	(1,049)
Additions charged to income	816
Balance at May 31, 2009	\$ 1,782

6. Acquisition.

On March 31, 2008, AZZ incorporated entered into an Asset Purchase Agreement to acquire substantially all of the assets of AAA Industries, Inc.

The following pro forma information is based on the assumption the acquisition took place on March 1, 2008 for the income statement for the three month period ended May 31, 2009 and 2008:

	Unaudited 5/31/09	Unaudited 5/31/08
	(\$ in thousands except per share data)	
Net Sales	\$ 95,492	\$ 104,508
Net Income	9,900	10,153
Earnings Per Common Share		
Basic Earnings Per Share	0.81	0.84
Diluted Earnings Per Share	0.80	0.83

7. Comprehensive Income.

We consider the Canadian dollar to be the functional currency of Blenkhorn and Sawle ("B&S"), our Canadian subsidiary, because it conducts substantially all of its business in Canadian currency. B&S's assets and liabilities are translated into United States dollars at exchange rates existing at the balance sheet date, revenue and expense are translated at weighted average exchange rates and shareholders' equity and intercompany balances are translated at historical exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders equity and is included in accumulated other comprehensive income (loss).

Statement of Financial Accounting Standards No. 130 Reporting Comprehensive Income (SFAS 130), requires the reporting of comprehensive income in addition to net income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company's comprehensive income includes net income and foreign translation adjustments. Comprehensive income for the three months ended May 31, 2009 was \$11,906,479. Comprehensive income for the three months ended May 31, 2008 fiscal was equal to net income.

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

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K may contain "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 (the "Exchange Act"). These statements are generally identified by the use of words such as "anticipate," "expect," "estimate," "intend," "should," "may," "believe," and terms with similar meanings. Although the Company believes that the current views and expectations reflected in these forward-looking statements are reasonable, those views and expectations, and the

related statements, are inherently subject to risks, uncertainties, and other factors, many of which are not under the Company's control. Those risks, uncertainties, and other factors could cause the actual results to differ materially from those in the forward-looking statements. Those risks, uncertainties, and factors include, but are not limited to: the level of customer demand for and response to products and services offered by the Company, including demand by the power generation markets, electrical transmission and distribution markets, the general industrial market, and the hot dip galvanizing markets; prices and raw material cost, including the cost of zinc and natural gas, which are used in the hot dip galvanizing process; changes in economic conditions of the various markets the Company serves, both foreign and domestic; customer requested delays of shipments; acquisition opportunities or lack thereof; currency exchange rates, adequacy of financing; and availability of experienced management employees to implement the Company's growth strategy; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the effects of existing or continued deterioration in economic conditions in the U.S. or the markets in which we operate; and acts of war or terrorism inside the United States or abroad. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

The following discussion should be read in conjunction with management's discussion and analysis contained in our 2009 Annual Report on Form 10-K, as well as with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 28, 2009. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue by segment and segment operating income to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this report.

Revenues

Our entire backlog relates to our Electrical and Industrial Products Segment. Our backlog was \$150.1 million as of May 31, 2009, a decrease of \$24.7 million or 14%, as compared to \$174.8 million at February 28, 2009. Our book-to-ship ratio was .74 to 1 for the first quarter ended May 31, 2009, as compared to 1.07 to 1 for the same period in the prior year. Incoming orders decreased 34% over the same period a year ago. While our quotation levels have increased during the first quarter ended May 31, 2009 when compared to the fourth quarter of last year, we have not seen a corresponding increase in our incoming order rate. Despite the improvement in our quotation levels, we anticipate a further deterioration of our backlog in the second quarter of 10% to 15%. If market conditions improve, as well as expansion of infrastructure projects, we are well positioned to capitalize on these improvements. We anticipate the backlog will level off by the second quarter of the current fiscal year and will show a modest improvement in the third and fourth quarter. The decrease in orders during the first quarter was anticipated due to delayed orders in the industrial market and increased competition on international orders. The delayed orders in the industrial market resulted from increased customer deliberation on the release of new orders pertaining to projects that are in process as well as those in the planning stage.

Backlog Table
(\$ in thousands)

	Period Ending		Period Ending	
Backlog	2/28/09	\$ 174,831	2/29/08	\$ 134,876
Bookings		70,719		106,834
Shipments		95,492		99,958
Backlog	5/31/09	\$ 150,058	5/31/08	\$ 141,752
Book to Ship Ratio		.74		1.07

The following table reflects the breakdown of revenue by segment:

Three Months Ended

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	5/31/2009	5/31/2008
	(\$ in thousands)	
Revenue:		
Electrical and Industrial Products	\$ 55,386	\$ 52,006
Galvanizing Services	40,106	47,952
Total Revenue	\$ 95,492	\$ 99,958

For the three-month period ended May 31, 2009, consolidated revenues were \$95.5 million, a 5% decrease as compared to the same period in fiscal 2009. For the quarter ended May 31, 2009, the Electrical and Industrial Products Segment contributed 58% of the Company's revenues, and the Galvanizing Services Segment accounted for the remaining 42% of the combined revenues. For the three month period ended May 31, 2008, the Electrical and Industrial Products Segment contributed 52% of the Company's revenues, and the Galvanizing Services Segment accounted for the remaining 48% of the combined revenues.

Revenues for the Electrical and Industrial Products Segment increased \$3.4 million or 7% for the three-month period ended May 31, 2009, as compared to the same period in fiscal 2009. The increased revenues were generated as a result of increased shipments from the record backlog recorded in the third and fourth quarter of fiscal 2009 and revenue generated from Blenkhorn and Sawle LTD., which was acquired in July of the prior year.

Revenues in the Galvanizing Services Segment decreased \$7.8 million or 16% for the three-month period ended May 31, 2009, as compared to the same period in fiscal 2009. Revenues for the first quarter were negatively impacted by a reduction in volume in the amount of 12% and selling price in the amount of 3%. The remaining 1% decrease in revenue was from the sale of bi-products, which was adversely impacted as well by lower volumes. Historically, revenues for this segment have followed closely the condition of the industrial sector of the general economy.

Segment Operating Income

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

	Three Months Ended	
	5/31/2009	5/31/2008
	(\$ in thousands)	
Segment Operating Income:		
Electrical and Industrial Products	\$ 10,512	\$ 7,932
Galvanizing Services	12,793	13,358
Total Operating Income	\$ 23,305	\$ 21,290

Our total operating income increased 10% for the three-month period ended May 31, 2009, to \$23.3 million as compared to \$21.3 million for the same period in fiscal 2009. Total operating margins improved to 24% for the three month period as compared to 21% for the same period in fiscal 2009. The improved margins were the result of lower commodity costs in both segments. The Electrical and Industrial Products Segment generated 45% of the operating income for the three months ended May 31, 2009, while the Galvanizing Services Segment produced the remaining 55%.

Segment operating income in the Electrical and Industrial Products Segment increased 33% for the three-month period ended May 31, 2009, to \$10.5 million as compared to \$7.9 million for the same period in fiscal 2009. Increased operating profit resulted from higher volumes combined with favorable commodity pricing. Operating margins were 19% as compared to 15% for the same period in fiscal 2009.

In the Galvanizing Services Segment, operating income decreased 4% for the three-month period ended May 31, 2009, to \$12.8 million as compared to \$13.4 million for the same period in fiscal 2009. The reduction in income was the result of lower revenues. Operating margins increased to 32% for the three-month period ended May 31, 2009, as compared to 28% for the same period in fiscal 2009. The improvement in operating margin during the first quarter ended May 31, 2009, as compared to the same period last year resulted from cost reductions implemented and lower costs for zinc. Margins in future quarters could be negatively impacted by a reduction in pricing if market demand decreases further for galvanizing services.

General Corporate Expenses

General corporate expenses, (see Note 4 to consolidated financial statements) not specifically identifiable to a segment, for the three-month period ended May 31, 2009, were \$5.7 million compared to \$4.6 million for the same period in fiscal 2009. As a percentage of sales, General Corporate expenses were 6% for the three-month period

ended May 31, 2009, as compared to 5% for the same period in fiscal 2009. General Corporate expenses were higher due primarily to increased stock based compensation expenses related to our stock appreciation rights and restricted stock award plans. Compensation expense related to these plans was \$.8 million higher for the three month period ended May 31, 2009, as compared to the same period in fiscal 2009.

Interest

Net interest expense for the three-month period ended May 31, 2009 increased 50% as compared to the same period in fiscal 2009 to \$1.7 million. Interest expense increased due to higher levels of debt for the quarter resulting from a \$100 million Note Purchase Agreement entered into by the Company pursuant to which the Company issued \$100 million aggregate principal amount of its 6.24% unsecured Notes (as defined below). The Notes were issued on March 31, 2008 and therefore the prior year had one less month of interest expense relating to the Notes than the current quarter ended May 31, 2009. As of May 31, 2009, we had outstanding long term debt of \$100 million, unchanged from the same quarter last year. Our long-term debt to equity ratio was .50 to 1 at May 31, 2009, as compared to .64 to 1 for the same period in fiscal 2009.

Other (Income) Expense

For the three-month period ended May 31, 2009, the amounts in other (income) expense not specifically identifiable with a segment (see Note 4 to consolidated financial statements) were insignificant.

Income Taxes

The provision for income taxes reflects an effective tax rate of 38% for the three-month period ended May 31, 2009, as compared to an effective tax rate of 36% for the same period in fiscal 2009. The income tax rate increased for the first quarter of fiscal 2009 due to higher state income taxes due to the mix of income from various taxing jurisdictions as compared to the same period last year. The IRS completed its examination of fiscal 2007 and determined there were no adjustments to be recorded.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, debt repayment, letters of credit and acquisitions. We believe that working capital, funds available under our credit agreement, and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, and payment of debt and possible future acquisitions during fiscal 2010.

Our operating activities generated cash flows of approximately \$13.7 million for the three-month period ended May 31, 2009, and \$(1.9) million during the same period in the prior fiscal year. Cash flow from operations for the quarter ended May 31, 2009 included net income in the amount of \$9.9 million, depreciation and amortization in the amount of \$4.2 million, and other adjustments to reconcile net income to net cash in the amount of a \$1.6 million. Included in other adjustments were provisions for bad debt, deferred income taxes, gain or loss on the sale of assets and non-cash adjustments. Positive cash flow was recognized due to decreased accounts receivables and inventories in the amount of \$6.4 million and \$4.2 million, respectively. These positive cash flow items were offset by revenue in excess of billings and prepaid expenses in the amount of \$2.7 million and \$2.2 million, respectively, and decreased accrued liabilities and accounts payable in the amounts of \$6.2 million, and \$1.4 million, respectively. The significant decrease in accrued liabilities was due to the payment of the fiscal 2009 profit sharing payment in the amount of \$6.1 million. Accounts receivable average days outstanding were 52 days for the quarter ended May 31, 2009, as compared to 51 days at February 28, 2009.

Cash used in investing activities during the quarter ended May 31, 2009 was approximately \$3.7 million related to capital improvements.

Our working capital was \$136.7 million at May 31, 2009, as compared to \$123.7 million at May 31, 2008.

On May 25, 2006, we entered into the Second Amended and Restated Credit Agreement by and among AZZ, Bank of America, N.A. ("Bank of America") and certain other lenders (including Bank of America) (the "Credit Agreement"), which replaced our Amended and Restated Revolving and Term Credit Agreement dated as of November 1, 2001. The Credit Agreement provides for a \$60 million revolving line of credit with one lender, Bank of America, N.A., maturing on May 25, 2011. This is an unsecured revolving credit facility, which we used to refinance outstanding borrowings and is used to provide for working capital needs, capital improvements, future acquisitions, and letter of credit needs. At May 31, 2009, we had no outstanding debt borrowed against the revolving credit facility. However, we had letters of credit outstanding in the amount of \$16 million, which left approximately \$44

million of additional credit available under the revolving credit facility.

See the description below of our Note Purchase Agreement for a discussion of the covenants contained in our Credit Agreement.

The Credit Agreement provides for an applicable margin ranging from .75% to 1.25% over the Eurodollar Rate and Commitment Fees ranging from .175% to .25% depending on our Leverage Ratio.

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

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

The Notes provide for various financial covenants of a) Minimum Consolidated Net Worth - Maintain on a consolidated basis net worth equal to at least the sum of \$116.9 million plus 50% of future net income; b) Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA – Maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) Fixed Charge Coverage Ratio – Maintains on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) Priority Indebtedness – The Company will not at any time permit aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10% of Consolidated Net Worth (as defined in the Note Purchase Agreement). In conjunction with the Note Offering, the Credit Agreement was amended to reflect the same financial covenants as the Notes with the exception of the Fixed Coverage Ratio, which remained at 1.5 to 1. In addition, the Credit Agreement maintains a maximum expenditure for fixed assets of \$20 million per fiscal year. We were in compliance at May 31, 2009 with all of our debt covenants.

Our current ratio (current assets/current liabilities) was 3.78 to 1 at the quarter ended May 31, 2009, as compared to 3.02 to 1 for same the period of the prior year. Long-term debt as a percentage of shareholders' equity ratio was .50 to 1 at the quarter ended May 31, 2009.

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

OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS

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

CONTRACTUAL COMMITMENTS

Leases

We lease various facilities under non-cancelable operating leases with an initial term in excess of one year. The future minimum payments required under these operating leases as of May 31, 2009 are summarized in the table below under "Other."

Commodity pricing

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

during difficult market conditions these escalation clauses may not be obtainable.

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

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

Other

At May 31, 2009, we had outstanding letters of credit in the amount of \$16 million. These letters of credit are issued, in lieu of performance and bid bonds, and to a portion of our customers to cover any potential warranty costs that the customer might incur. In addition, as of May 31, 2009, a warranty reserve in the amount of \$1.8 million has been established to offset any future warranty claims.

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

Fiscal Year	Operating Leases	Long-Term Debt	Interest on Long Term Debt	Total
(\$ in thousands)				
2010	\$ 2,634	\$	\$ 3,120	\$ 5,754
2011	3,867		6,240	10,107
2012	3,175		6,240	9,415
2013	2,654	14,286	5,794	22,734
2014	2,544	14,286	4,903	21,733
Thereafter	13,709	71,428	11,143	96,280
Total	\$ 28,583	\$ 100,000	\$ 37,440	\$ 166,023

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Doubtful Accounts - The carrying value of our accounts receivable is continually evaluated based on the likelihood of collection. An allowance is maintained for estimated losses resulting from our customers' inability to make required payments. The allowance is determined by historical experience of uncollected accounts, the level of past due accounts, overall level of outstanding accounts receivable, information about specific customers with respect of their inability to make payments and future expectations of conditions that might impact the collectability of accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

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

Revenue Recognition - Revenue is recognized for the Electrical and Industrial Products Segment upon transfer of title and risk to customers, or based upon the percentage of completion method of accounting for electrical products built to customer specifications under long term contracts. We recognize revenue for the Galvanizing Services Segment upon completion of the galvanizing process performed on the customers' material or shipment of this material.

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

Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill - We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events,

circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets. An annual impairment test of goodwill is performed in the fourth quarter of each fiscal year. The test is calculated using the anticipated future cash flows after tax from our operating segments. Based on the present value of the future cash flows, we will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market, changes in economic conditions of these various markets, raw material and natural gas costs, and availability of experienced labor and management to implement our growth strategies.

Accounting for Income Taxes - We account for income taxes under the provisions of SFAS No. 109, "Accounting For Income Taxes" ("SFAS No. 109"). The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Developing our provision for income taxes requires significant judgment and expertise in deferral and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. Our judgments and tax strategies are subject to audit by various taxing authorities.

On March 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB No. 109" ("FIN 48"), which prescribes a recognition threshold and measurement attribute for recording in the financial statements uncertain tax positions taken or expected to be taken and provides guidance on derecognition, classification, accounting in interim periods and disclosure requirement. There was no impact to the Company's operating results upon adoption.

Stock Options and Stock Appreciation Rights - Our employees and directors are periodically granted stock options or Stock Appreciation Rights by the Compensation Committee of the Board of Directors. In fiscal 2007, we adopted the provisions of SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"). Under the provisions of SFAS No. 123R, the compensation cost of all employee stock-based compensation awards is measured based on the grant-date fair value of those awards and that cost is recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award).

The valuation of stock based compensation awards is complex in that there are a number of variables included in the calculation of the value of the award:

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

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

These variables are developed using a combination of our internal data with respect to stock price volatility and exercise behavior of option holders and information from outside sources. The development of each of these variables

requires a significant amount of judgment. Changes in the values of the above variables would result in different option valuations and, therefore, different amounts of compensation cost.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standard Board ("FASB") issued SFAS No. 141, (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and the goodwill acquired. SFAS No.141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and was adopted by us in the first quarter of fiscal 2010. We are currently unable to predict the potential impact, if any, of the adoption of SFAS No. 141(R) on future acquisitions.

In April 2008, the FASB issued FSP No. AS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under SFAS No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other accounting principles generally accepted in the United States. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and was adopted by us in the first quarter of fiscal 2010. Earlier application is not permitted. The adoption did not have an impact on our financial results.

In October 2008, as a result of the recent credit crisis, the FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSPFAS 157-3 addresses how management should consider measuring fair value when relevant observable data does not exist. FSP FAS 157-3 also provides guidance on how observable market information in a market that is not active should be considered when measuring fair value, as well as how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSPFAS 157-3 is effective upon issuance for companies that have adopted SFAS No. 157. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with SFAS No. 154, "Accounting Change and Error Corrections". FSP FAS 157-3 was adopted by us effective February 29, 2009, but currently has no effect on the Company's results of operations, cash flows or financial position.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSPFAS 141(R)-1"). FSP FAS 141(R)-1 amends SFAS No. 141R to clarify the initial and subsequent recognition, subsequent accounting and disclosure of assets acquired and liabilities arising from contingencies in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with SFAS No. 5, "Accounting for Contingencies" ("SFAS No. 5"), and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss". FSP FAS 141(R)-1 will be applied prospectively to business combinations with an acquisition date on or after the guidance becomes effective. The impact to the Company cannot be determined until a transaction occurs.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), which provides additional guidance for applying the provisions of SFAS No. 157. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. FSP FAS 157-4 requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. FSP FAS 157-4 must be applied prospectively for interim periods ending after June 15, 2009, and will be adopted in the third quarter of fiscal 2009. The Company is currently assessing the impact that FSP FAS 157-4 may have on its financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk affecting our operations results primarily from changes in interest rates and commodity prices. We have only limited involvement with derivative financial instruments and are not a party to any leveraged derivatives.

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

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

We do not believe that a hypothetical change of 10% of the interest rate currently in effect or a change of 10% of commodity prices would have a significantly adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. To date, we have been successful in passing along the rising cost of commodities without an adverse effect on our results of operations. However, there can be no assurance that either interest rates or commodity prices will not change in excess of the 10% hypothetical amount, which could have an adverse effect on our results of operations, financial position, and cash flows if we are unable to pass along these increases to our customers.

Item 4. Controls and Procedures.

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended February 28, 2009.

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

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submissions of Matters to a Vote of Security Holders. None.

Item 5. Other Information.

Item 6. Exhibits.

Exhibits Required by Item 601 of Regulation S-K.

A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Index to Exhibits on page 19, which immediately precedes such exhibits.

SIGNATURES

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

AZZ incorporated
(Registrant)

DATE: 6/26/09

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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3(1)	Articles of Incorporation, and all amendments thereto (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 1981).
3(2)	Articles of Amendment to the Article of Incorporation of the Registrant dated June 30, 1988 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
3(3)	Articles of Amendment to the Articles of Incorporation of the Registrant dated October 25, 1999 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
3(4)	Articles of Amendment to the Articles of Incorporation dated July 17, 2000 (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant for the quarter ended August 31, 2000).
3(5)	Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on November 27, 2007).
3(6)	Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on April 3, 2009).
4	Form of Stock Certificate for the Company's \$1.00 par value Common Stock (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant August 31, 2000).
10(1)	Second Amended and Restated Credit Agreement with Bank of America, N.A., dated May 25, 2006 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the Registrant on May 26, 2006).
10(2)	First Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated February 28, 2007 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the Registrant on March 1, 2007).
10(3)	Second Amendment and Consent to Second Amendment and Restated Credit Agreement dated March 31, 2008, by and between AZZ incorporated and Bank of America, N.A. (incorporated by reference to Exhibit 10(3) of the Form 8-K filed by the registrant on April 2, 2008).
10(4)	Note Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and the purchasers listed therein (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the registrant on April 2, 2008).
10(5)	Asset Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and AAA Industries, Inc. (incorporated by reference to Exhibit 10(2) of the Form 8-K filed by the registrant on April 2, 2008).
10(6)	Asset Purchase Agreement executed and delivered on June 26, 2008 and made to be effective as of June 30, 2008, by and among AZZ incorporated, AZZ Blenkhorn & Sawle Limited, Blenkhorn and Sawle Limited, and Chriscot Holdings Limited.
10(7)	AZZ incorporated Amended and Restated 2005 Long-Term Incentive Plan (incorporated by reference to Appendix A of the Proxy Statement for the 2008 Annual Shareholders Meeting).
10(8)	AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Proxy Statement for the 2008 Annual Shareholders Meeting).
10(9)	1999 Independent Director Share Ownership Plan as Approved on January 19, 1999 and As Amended on September 22, 1999 (incorporated by reference to Exhibit 10(22) of the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 2001).
10(10)	2000 Advisory Director Share Ownership Plan as Approved on March 28, 2000 (incorporated by reference to Exhibit 10(23) of the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 2001).
10(11)	AZZ incorporated 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit A of the Proxy Statement for the 2001 Annual Shareholders Meeting).

- 10(12) AZZ incorporated 2005 Management Incentive Bonus Plan (incorporated by reference to Exhibit 10(20) to the Annual Report on Form 10-K filed by the registrant for the fiscal year ended February 28, 2002).
- 10(13) 2002 Plan for the Annual Grant of Stock Options to Independent Directors of AZZ incorporated (incorporated by reference to Exhibit 10(27) to the Quarterly Report Form 10-Q filed by the registrant for the quarter ended August 31, 2002).
- 10(14) AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Directors (incorporated by reference to Exhibit 10(53) to the quarterly report Form 10-Q filed by the Registrant for the quarter ended August 31, 2004).
- 10(15) AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Key Employees (incorporated by reference to Exhibit 10(54) to the quarterly report Form 10-Q filed by the Registrant for the quarter ended August 31, 2004).
- 10(16) AZZ incorporated 2005 Independent Director Compensation Plan (incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed by the Registrant on July 14, 2005).
- 31.1 Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated June 26, 2009. Filed Herewith.
- 31.2 Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated June 26, 2009. Filed Herewith.
- 32.1 Chief Executive Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated June 26, 2009. Filed Herewith.
- 32.2 Chief Financial Officer Certificate pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated June 26, 2009. Filed Herewith.