

AZZ INC
Form 10-Q
January 06, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2011

OR

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

Commission file number 1-12777

AZZ incorporated

(Exact name of registrant as specified in its charter)

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TEXAS
 (State or other jurisdiction of
 incorporation or organization)

75-0948250
 (I.R.S. Employer
 Identification No.)

One Museum Place, Suite 500
3100 West 7th Street
Fort Worth, Texas
 (Address of principal executive offices)

76107
 (Zip Code)

(817) 810-0095

Registrant's telephone number, including area code:

NONE

(Former name, former address and former fiscal year, if changed since last report)

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 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, or a non-accelerated filer or a smaller reporting company. See 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class:

Outstanding at November 30, 2011:

Common Stock, \$1.00 par value per share

12,582,615

Table of Contents

AZZ incorporated

INDEX

| | PAGE NO. |
|---|-------------|
| PART I. | |
| | |
| Item 1. | |
| <u>Financial Statements</u> | |
| Condensed Financial Statements | |
| <u>Consolidated Balance Sheets at November 30, 2011 and February 28, 2011</u> | 3 |
| <u>Consolidated Income Statements for the Three and Nine Months Ended November 30, 2011 and November 30, 2010</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended November 30, 2011 and November 30, 2010</u> | 5 |
| <u>Consolidated Statement of Shareholders' Equity for the Nine Months Ended November 30, 2011</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7-13 |
| Item 2. | 13-22 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | |
| Item 3. | 22 |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | |
| Item 4. | 23 |
| <u>Controls and Procedures</u> | |
| PART II. | |
| | |
| Item 1. | 23 |
| <u>Legal Proceedings</u> | |
| Item 1A. | 23 |
| <u>Risk Factors</u> | |
| Item 2. | 23 |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | |
| Item 3. | 23 |
| <u>Defaults Upon Senior Securities</u> | |
| Item 4. | 23 |
| <u>Reserved</u> | |
| Item 5. | 23 |
| <u>Other Information</u> | |
| Item 6. | 23 |
| <u>Exhibits</u> | |
| | |
| <u>SIGNATURES</u> | 24 |
| | |
| <u>EXHIBIT INDEX</u> | 25-26 |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

| | 11/30/11 (Unaudited) | 02/28/11 |
|---|-------------------------|----------------|
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 160,098,553 | \$ 138,389,837 |
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$850,000 at November 30, 2011 and \$720,000 at February 28, 2011) | 65,454,139 | 61,945,377 |
| Inventories: | | |
| Raw Material | 43,270,127 | 42,745,225 |
| Work-In-Process | 19,024,305 | 12,451,979 |
| Finished Goods | 2,367,061 | 4,355,188 |
| Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts | 14,048,240 | 15,880,092 |
| Deferred Income Taxes | 6,359,213 | 7,003,167 |
| Prepaid Expenses and Other | 2,397,618 | 1,248,270 |
| Total Current Assets | 313,019,256 | 284,019,135 |
| Property, Plant and Equipment, Net | 127,090,526 | 125,361,635 |
| Goodwill | 112,902,427 | 113,463,436 |
| Intangibles and Other Assets, Net | 40,653,502 | 43,680,635 |
| | \$ 593,665,711 | \$ 566,524,841 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 24,292,558 | \$ 21,713,896 |
| Income Taxes Payable | 516,294 | 2,838,901 |
| Accrued Salaries and Wages | 6,348,495 | 7,038,999 |
| Other Accrued Liabilities | 17,675,813 | 19,158,165 |
| Customer Advance Payments | 11,284,795 | 7,308,909 |
| Long Term Debt Due Within One Year | 14,285,714 | |
| Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts | 472,217 | 127,360 |
| Total Current Liabilities | 74,875,886 | 58,186,230 |
| Long-Term Debt Due After One Year | 210,714,286 | 225,000,000 |
| Deferred Income Taxes | 30,170,642 | 27,320,738 |
| Shareholders' Equity: | | |
| Common Stock, \$1 Par Value, Shares Authorized 50,000,000, Shares Issued 12,609,160 | 12,609,160 | 12,609,160 |
| Capital In Excess of Par Value | 26,578,137 | 24,141,022 |
| Retained Earnings | 238,561,936 | 218,889,963 |
| Accumulated Other Comprehensive Income | 329,942 | 920,063 |
| Less Common Stock Held In Treasury, At Cost (26,545 Shares at November 30, 2011 and 109,804 Shares at February 28, 2011) | (174,278) | (542,335) |
| Total Shareholders' Equity | 277,904,897 | 256,017,873 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 11/30/11 (UNAUDITED) | 11/30/10 (UNAUDITED) | 11/30/11 (UNAUDITED) | 11/30/10 (UNAUDITED) |
| Net Sales | \$ 116,492,703 | \$ 102,897,545 | \$ 345,486,904 | \$ 279,963,160 |
| Costs And Expenses | | | | |
| Cost Of Sales | 85,685,729 | 75,252,872 | 253,230,966 | 199,702,328 |
| Selling, General and Administrative | 11,320,064 | 10,918,206 | 36,109,841 | 35,422,991 |
| Interest Expense | 3,518,978 | 1,787,161 | 10,453,156 | 5,246,405 |
| Net Loss (Gain) On Sale of Property, Plant and Equipment, and Insurance Proceeds | (7,101) | 6,505 | 163,777 | (50,613) |
| Other Income | (192,569) | (256,803) | (1,224,927) | (1,017,215) |
| | 100,325,101 | 87,707,941 | 298,732,813 | 239,303,896 |
| Income Before Income Taxes | 16,167,602 | 15,189,604 | 46,754,091 | 40,659,264 |
| Income Tax Expense | 6,146,684 | 5,472,062 | 17,661,951 | 14,921,478 |
| Net Income | \$ 10,020,918 | \$ 9,717,542 | \$ 29,092,140 | \$ 25,737,786 |
| Earnings Per Common Share | | | | |
| Basic Earnings Per Share | \$ 0.80 | \$ 0.78 | \$ 2.32 | \$ 2.07 |
| Diluted Earnings Per Share | \$ 0.79 | \$ 0.77 | \$ 2.30 | \$ 2.04 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTHS ENDED | |
|---|-------------------------|-------------------------|
| | 11/30/11 (Unaudited) | 11/30/10 (Unaudited) |
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 29,092,140 | \$ 25,737,786 |
| Adjustments to Reconcile Net Income to Net Cash From Operating Activities: | | |
| Provision for Doubtful Accounts | 129,338 | 102,146 |
| Amortization and Depreciation | 16,869,925 | 16,163,780 |
| Deferred Income Tax Expense | 3,491,732 | (574,701) |
| Net Loss (Gain) on Sale or Insurance Settlement of Property, Plant & Equipment | 163,777 | (50,613) |
| Amortization of Deferred Borrowing Costs | 241,006 | 245,712 |
| Share-Based Compensation Expense | 2,696,083 | 2,801,435 |
| Effects of Changes In Assets & Liabilities: | | |
| Accounts Receivable | (3,693,162) | (5,241,586) |
| Inventories | (5,273,206) | (7,764,627) |
| Prepaid Expenses And Other | (1,153,152) | (646,750) |
| Other Assets | (3,808) | (113,604) |
| Net Change In Billings Related to Costs and Estimated Earnings on Uncompleted Contracts | 2,176,709 | (4,449,069) |
| Accounts Payable | 2,604,300 | 2,749,274 |
| Other Accrued Liabilities and Income Taxes | (510,062) | (3,430,660) |
| Net Cash Provided By Operating Activities | 46,831,620 | 25,528,523 |
| Cash Flows From Investing Activities: | | |
| Proceeds From Sale or Insurance Settlement of Property, Plant, and Equipment | 273,521 | 195,617 |
| Purchase of Property, Plant and Equipment | (16,344,083) | (10,986,924) |
| Acquisition of Subsidiaries, Net of Cash Acquired | | (104,091,416) |
| Net Cash Used In Investing Activities | (16,070,562) | (114,882,723) |
| Cash Flows From Financing Activities: | | |
| Proceeds From Exercise of Stock Options | 48 | 379,955 |
| Excess Tax Benefits From Stock Options and Stock Appreciation Rights | 199,427 | 875,224 |
| Proceeds from Revolving Loan | | 12,000,000 |
| Payments on Revolving Loan | | (12,000,000) |
| Payments on Long Term Debt | | (7,300,000) |
| Proceeds From Settlement of Financial Derivative | | 834,416 |
| Dividends Paid | (9,420,167) | (9,341,973) |
| Net Cash Used In Financing Activities | (9,220,692) | (14,552,378) |
| Effect Of Exchange Rate Changes on Cash | 168,350 | (47,478) |
| Net Increase (Decrease) In Cash & Cash Equivalents | 21,708,716 | (103,954,056) |
| Cash & Cash Equivalents at Beginning of Period | 138,389,837 | 110,607,029 |
| Cash & Cash Equivalents at End of Period | \$ 160,098,553 | \$ 6,652,973 |

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| Supplemental Disclosures | | |
|----------------------------|---------------|---------------|
| Cash Paid For Interest | \$ 10,041,387 | \$ 6,560,693 |
| Cash Paid For Income Taxes | \$ 16,636,076 | \$ 14,098,568 |

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(unaudited)

| | Common Stock | | Capital in | Retained | Accumulated | Treasury | Total |
|--|--------------|---------------|------------------------|----------------|-----------------------------------|--------------|----------------|
| | Shares | Amount | Excess of Par Value | Earnings | Comprehensive Income (Loss) | Stock | |
| Balance at February 28, 2011 | 12,609,160 | \$ 12,609,160 | \$ 24,141,022 | \$ 218,889,963 | \$ 920,063 | \$ (542,335) | \$ 256,017,873 |
| Exercise of Stock Options | | | 8,150 | | | (8,102) | 48 |
| Stock Compensation | | | 2,661,511 | | | 34,572 | 2,696,083 |
| Restricted Stock Units | | | (90,996) | | | 12,999 | (77,997) |
| Stock Issued for SARs | | | (981,519) | | | 205,839 | (775,680) |
| Employee Stock Purchase Plan | | | 640,542 | | | 122,749 | 763,291 |
| Federal Income Tax Deducted on Stock Options and SARs | | | 199,427 | | | | 199,427 |
| Cash Dividend Paid | | | | (9,420,167) | | | (9,420,167) |
| Comprehensive Income: | | | | | | | |
| Net Income | | | | 29,092,140 | | | 29,092,140 |
| Foreign Currency Translation | | | | | (549,443) | | (549,443) |
| Interest Rate Swap, Net of Income Tax | | | | | (40,678) | | (40,678) |
| Comprehensive Income | | | | | | | 28,502,019 |
| Balance at November 30, 2011 | 12,609,160 | \$ 12,609,160 | \$ 26,578,137 | \$ 238,561,936 | \$ 329,942 | \$ (174,278) | \$ 277,904,897 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**AZZ incorporated****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Summary of Significant Accounting Policies****1. Basis of presentation.**

These interim unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the Securities and Exchange Commission (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, 2011, included in the Company's Annual Report on Form 10-K covering such period. For purposes of this 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 will end February 29, 2012 is referred to as fiscal 2012.

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 November 30, 2011, and the results of its operations and cash flows for the three-month and nine-month periods ended November 30, 2011 and 2010.

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 November 30, | | Nine months ended November 30, | |
|---|--|------------|--------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | | |
| | (In thousands except share and per share data) | | | |
| Numerator: | | | | |
| Net income for basic and diluted earnings per common share | \$ 10,021 | \$ 9,718 | \$ 29,092 | \$ 25,738 |
| Denominator: | | | | |
| Denominator for basic earnings per common share - weighted average shares | 12,581,726 | 12,495,182 | 12,560,298 | 12,448,949 |
| Effect of dilutive securities: | | | | |
| Employee and Director stock awards | 105,416 | 126,921 | 109,532 | 141,117 |
| Denominator for diluted earnings per common share | 12,687,142 | 12,622,103 | 12,669,830 | 12,590,066 |
| Earnings per share basic and diluted: | | | | |
| Basic earnings per common share | \$.80 | \$.78 | \$ 2.32 | \$ 2.07 |
| Diluted earnings per common share | \$.79 | \$.77 | \$ 2.30 | \$ 2.04 |

Table of Contents**3. Stock-based Compensation.**

During fiscal 2002, the Company adopted the AZZ incorporated 2001 Long-Term Incentive Plan (2001 Plan). Under the 2001 Plan the Company may grant to its employees and directors restricted stock and options to purchase the common stock of the Company. The maximum number of shares that may be issued under the 2001 Plan is 1.5 million shares. In conjunction with the adoption of the 2001 Plan, all options still available for issuance under pre-existing option plans were terminated. At November 30, 2011, 3,746 vested options were outstanding under the 2001 Plan and exercisable at \$4.22 per share. All options under the 2001 Plan are fully vested and all expire at various dates through March 2013. There were no new options or Stock Appreciation Rights granted under the 2001 Plan during the first nine months of fiscal 2012.

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long Term Incentive Plan (as subsequently amended and restated, the 2005 Plan). Under the 2005 Plan the Company may grant to its employees and directors restricted stock, performance awards, restricted stock units (Restricted Stock Units), Stock Appreciation Rights (SARs or Stock Appreciation Rights) and options to purchase common stock of the Company. The 2005 Plan was amended on July 8, 2008. The maximum number of shares that may be issued under the 2005 Plan is one million shares.

On September 1, 2008, we adopted the AZZ incorporated Employee Stock Purchase Plan (the Plan). Under the Plan employees of the Company may 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 (the Exercise Date), in an amount 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 shares with a fair market value of no more than \$25,000 per calendar year, and no participant may purchase more than 5,000 shares under the Plan during any offering period. A participant may terminate his or her 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.

Stock Appreciation Rights

All Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met and qualify for equity treatment.

On March 1, 2008, 131,690 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$35.88. 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 November 30, 2011, none of these SARs were outstanding. Compensation expense related to these grants was recognized in the amount of \$1,000 and \$176,000 for nine month periods ended November 30, 2011 and 2010, respectively. We had no unrecognized costs related to the grants as of November 30, 2011.

On March 1, 2009, we awarded 163,233 Stock Appreciation Rights under the 2005 Plan with an exercise price of \$18.12. 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. As of November 30, 2011, 74,748 of these SARs were outstanding. Compensation expense in the amount of \$131,000 and \$131,000 was recognized during each of the nine month periods ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had unrecognized cost of \$44,000 related to the March 1, 2009 SAR grants.

Table of Contents

On March 1, 2010, 150,382 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$31.67. The weighted average fair value of SARs awarded on March 1, 2010, was determined to be \$12.31 based on the following assumptions: risk-free interest rate of 3.61%, dividend yield of 3.16%, expected volatility of 53.31% and expected life of 5 years. As of November 30, 2011, 121,744 SARs were outstanding. Compensation expense related to these grants in the amount of \$184,000 and \$1,299,000 was recognized during the nine month periods ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had unrecognized cost of \$307,000 related to the grants.

On June 1, 2010, we awarded 11,014 Stock Appreciation Rights to a key employee under the 2005 Plan with an exercise price of \$40.01. The weighted average fair value of SARs awarded on June 1, 2010, was determined to be \$15.70 based on the following assumptions: risk-free interest rate of 2.20%, dividend yield of 2.50%, expected volatility of 53.32% and expected life of 5 years. 8,614 of these SARs were forfeited and none of these SARs were outstanding as of November 30, 2011. Compensation expense related to these grants in the amount of \$43,000 and \$29,000 was recognized during the nine month period ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had no unrecognized cost related to the grants.

On March 1, 2011, 96,566 Stock Appreciation Rights were awarded under the 2005 Plan with an exercise price of \$41.81. The weighted average fair value of SARs awarded on March 1, 2011, was determined to be \$15.47 based on the following assumptions: risk-free interest rate of 3.39%, dividend yield of 2.39%, expected volatility of 47.16% and expected life of 5 years. As of November 30, 2011, all 96,566 Stock Appreciation Rights were outstanding. Compensation expense related to these grants in the amount of \$1,023,000 was recognized during the nine month period ended November 30, 2011. As of November 30, 2011, we had unrecognized cost of \$471,000 related to the grants.

Restricted Stock Units

All restricted Stock Units described in this section have a three year cliff vesting schedule, but they may vest early under accelerated vesting provisions in the 2005 Plan.

On March 1, 2009, 31,666 shares of Restricted Stock Units were issued to our key employees under the 2005 Plan. The market value of a share of our stock was \$18.12 on the date the Company granted the Restricted Stock Units. As of November 30, 2011, 29,058 Restricted Stock Units were outstanding. Compensation expense related to these issuances in the amount of \$56,000 and \$56,000 was recognized during each of the nine month periods ended November 30, 2011 and 2010. The amount of unrecognized cost at November 30, 2011 was \$19,000.

On March 1, 2010, we issued 22,906 shares of Restricted Stock Units to our key employees under the 2005 Plan. The market value of a share of our stock was \$31.67 on the date of grant. As of November 30, 2011, 21,019 Restricted Stock Units were outstanding. Compensation expense related to these issuances in the amount of \$71,000 and \$511,000 was recognized during the nine month period ended November 30, 2011 and 2010, respectively. The amount of unrecognized cost at November 30, 2011 was \$119,000.

On June 1, 2010, we issued 1,887 shares of Restricted Stock Units to a key employee under the 2005 Plan. The market value of a share of our stock was \$40.01 on the date of grant. As of November 30, 2011, 1,887 of these Restricted Stock Units were forfeited. Compensation expense related to these issuances in the amount of \$19,000 and \$13,000 was recognized during the nine month period ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had no unrecognized cost related to the grants.

On March 1, 2011, we issued 15,336 shares of Restricted Stock Units to our key employees under the 2005 Plan. The market value of a share of our stock was \$41.81 on the date of grant. As of November 30, 2011, all 15,336 shares of Restricted Stock Units were outstanding. Compensation expense related to these issuances in the amount of \$430,000 was recognized during the nine month period ended November 30, 2011. The amount of unrecognized cost at November 30, 2011 was \$211,000.

Table of Contents*Shares Purchased Under the Employee Stock Purchase Plan*

We estimated the shares to be issued under the Plan on the first enrollment at September 1, 2008 to be 36,100 shares after 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 expense related to this issuance in the amount of \$0 and \$133,000 was recognized during the nine month periods ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had no unrecognized costs related to the first issuance under the Plan. In accordance with the Plan, we issued 20,822, 9,097, 7,245 and 7,584 shares on March 1, 2009, September 1, 2009, March 1, 2010 and September 1, 2010, respectively, to the enrolled employees.

On March 1, 2009, the date of the second offering, the estimated shares to be issued were 14,019 after 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 3%, dividend yield of 0.0%, expected volatility of 50.40% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$0 and \$39,000 was recognized during the nine month periods ended November 30, 2011 and 2010, respectively. In accordance with the Plan, we issued 5,943, 4,175, 4,139 and 4,714 shares on September 1, 2009, March 1, 2010, September 1, 2010, and March 1, 2011, respectively. As of November 30, 2011, we had no unrecognized costs related to the second issuance under the Plan.

On September 1, 2009, the date of the third offering, the estimated shares to be issued were 3,523 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.31 based on the following assumptions: risk-free interest rate of 3.25%, dividend yield of 0.0%, expected volatility of 54.52% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$13,000 and \$20,000 was recognized during the nine month periods ended November 30, 2011 and 2010, respectively. As of November 30, 2011, we had no unrecognized costs related to the third issuance under the Plan. In accordance with the Plan, 991, 793, 481 and 555 shares were issued on March 1, 2010, September 1, 2010, March 1, 2011 and September 1, 2011, respectively, to the enrolled employees.

On March 1, 2010, the date of the fourth offering, the estimated shares to be issued were 2,715 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.19 based on the following assumptions: risk-free interest rate of 3.87%, dividend yield of 2.96%, expected volatility of 67.65% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$15,000 and \$15,000 was recognized during each of the nine month periods ended November 30, 2011 and 2010. In accordance with the Plan we issued 747, 680 and 989 shares on September 1, 2010, March 1, 2011 and September 1, 2011, respectively, to the enrolled employees. As of November 30, 2011, we had unrecognized costs of \$5,000 related to the fourth issuance under of the Plan.

On September 1, 2010, the date of the fifth offering, the estimated shares to be issued were 47,078 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.76 based on the following assumptions: risk-free interest rate of 2.59%, dividend yield of 2.43%, expected volatility of 52.11% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$278,000 and \$93,000 was recognized during the nine month period ended November 30, 2011 and 2010, respectively. In accordance with the Plan, we issued 6,584 and 7,894 shares on March 1, 2011 and September 1, 2011, respectively. As of November 30, 2011, we had unrecognized costs of \$278,000 related to the fifth issuance under the Plan.

On March 1, 2011, the date of the sixth offering, the estimated shares to be issued were 11,100 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$15.42 based on the following assumptions: risk-free interest rate of 3.51%, dividend yield of 2.38%, expected volatility of 46.86% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$64,000 was recognized during the nine month period ended November 30, 2011. In accordance with the Plan, we issued 2,957 shares on September 1, 2011. As of November 30, 2011, we had unrecognized costs of \$107,000 related to the sixth issuance under the Plan.

Table of Contents

On September 1, 2011, the date of the seventh offering, the estimated shares to be issued were 4,953 after estimated forfeitures. The weighted average fair value of these shares was determined to be \$10.77 based on the following assumptions: risk-free interest rate of 0.2%, dividend yield of 2.27%, expected volatility of 48.85% and expected life of 2 years. Compensation expense related to this issuance in the amount of \$10,000 was recognized during the nine month period ended November 30, 2011. As of November 30, 2011, we had unrecognized costs of \$68,000 related to the seventh issuance under the Plan.

Directors Grants

During each of fiscal 2012 and 2011, the Company granted its directors 7,000 shares of the Company's common stock. The stock price at the date of grant was \$50.84 and \$40.92 for fiscal 2012 and 2011, respectively. Stock compensation expense was recognized with regard to these grants in the amount of \$356,000 and \$286,000 for the nine month periods ended November 30, 2011 and 2010, respectively.

4. Segments.

We have two operating segments as described in our Annual Report on Form 10-K for the year ended February 28, 2011. Information regarding operations and assets by segment is as follows:

| | Three Months Ended November 30, 2011 | | Nine Months Ended November 30, 2010 | |
|------------------------------------|--------------------------------------|------------------|-------------------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | | |
| | (\$ In thousands) | | | |
| Net Sales: | | | | |
| Electrical and Industrial Products | \$ 43,849 | \$ 41,051 | \$ 136,518 | \$ 118,980 |
| Galvanizing Services | 72,644 | 61,847 | 208,969 | 160,983 |
| | 116,493 | 102,898 | 345,487 | 279,963 |
| Operating Income (a): | | | | |
| Electrical and Industrial Products | 5,719 | 6,185 | 18,214 | 20,333 |
| Galvanizing Services | 18,555 | 15,421 | 54,431 | 42,135 |
| | 24,274 | 21,606 | 72,645 | 62,468 |
| General Corporate Expense (b) | 4,662 | 4,630 | 15,778 | 16,597 |
| Interest Expense | 3,519 | 1,787 | 10,453 | 5,246 |
| Other (Income) Expense, Net (c) | (75) | (1) | (340) | (34) |
| | 8,106 | 6,416 | 25,891 | 21,809 |
| Income Before Income Taxes | \$ 16,168 | \$ 15,190 | \$ 46,754 | \$ 40,659 |
| Total Assets: | | | | |
| Electrical and Industrial Products | \$ 136,008 | \$ 126,376 | \$ 136,008 | \$ 126,376 |
| Galvanizing Services | 283,141 | 273,180 | 283,141 | 273,180 |
| Corporate | 174,517 | 34,479 | 174,517 | 34,479 |
| | \$ 593,666 | \$ 434,035 | \$ 593,666 | \$ 434,035 |

Table of Contents

- (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 2009:

| | Warranty Reserve (unaudited) |
|------------------------------|---------------------------------|
| | (in thousands) |
| Balance at February 28, 2009 | \$ 2,015 |
| Warranty costs incurred | (2,130) |
| Additions charged to income | 2,912 |
| | |
| Balance at February 28, 2010 | \$ 2,797 |
| Warranty costs incurred | (2,821) |
| Additions charged to income | 2,510 |
| | |
| Balance at February 28, 2011 | \$ 2,486 |
| Warranty costs incurred | (1,760) |
| Additions charged to income | 1,244 |
| | |
| Balance at November 30, 2011 | \$ 1,970 |

6. Acquisition.

On June 14, 2010, we acquired North American Galvanizing & Coatings, Inc. (NGA), a leading provider of corrosion protection for iron and steel components fabricated by its customers. The total cash purchase price for NGA was \$132 million (\$104 million net of cash acquired on hand at NGA of \$28 million). The acquisition was funded from our cash on hand and our existing credit facility.

Table of Contents

The following consolidated pro-forma information assumes that the acquisition of NGA took place on March 1, 2010 for the income statements for the three month and nine month periods ended November 30, 2011 and 2010.

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|----------------------------------|--|------------|--------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (In thousands, except for per share amounts) | | | |
| Net Sales | \$ 116,493 | \$ 102,898 | \$ 345,487 | \$ 298,876 |
| Net Income | \$ 10,021 | \$ 9,718 | \$ 29,092 | \$ 29,123 |
| Earnings Per Common Share | | | | |
| Basic Earnings Per Share | \$ 0.80 | \$ 0.78 | \$ 2.32 | \$ 2.34 |
| Diluted Earnings Per Share | \$ 0.79 | \$ 0.77 | \$ 2.30 | \$ 2.32 |

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

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as may, should, expects, plans, anticipates, believes, estimates, predicts, potential, continue, or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the electrical power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the economic conditions of the various markets that AZZ serves, foreign and domestic, customer requested delays of shipments, acquisition opportunities, currency exchange rates, adequacy of financing, and availability of experienced management employees to implement AZZ's growth strategy. AZZ has provided additional information regarding risks associated with the business in AZZ's Annual Report on Form 10-K for the fiscal year ended February 28, 2011 and other filings with the SEC, available for viewing on AZZ's website at www.azz.com and on the SEC's website at www.sec.gov.

You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussion should be read in conjunction with management's discussion and analysis contained in our Annual Report on Form 10-K for the year ended February 28, 2011 and with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

Table of Contents**RESULTS OF OPERATIONS**

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 28, 2011, our Electrical and Industrial Products Segment and our Galvanizing Services Segment. 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 Quarterly Report on Form 10-Q.

Orders and Backlog

Our entire backlog relates to our Electrical and Industrial Products Segment. Our backlog was \$132.1 million as of November 30, 2011, an increase of \$23.7 million or 22%, as compared to \$108.4 million at February 28, 2011. Our book-to-ship ratio was 1.08 to 1 for the third quarter ended November 30, 2011, as compared to .95 to 1 for the same period in the prior year. Incoming orders for the three and nine month periods ended November 30, 2011 increased 28% and 36%, respectively, over the same periods a year ago. The third quarter of fiscal 2012 marked the fourth consecutive quarter with a book to ship ratio in excess of one to one. Order intake was up for all of our served markets, with the power generation market showing the most significant improvement for the compared periods. Orders included in the backlog are represented by contracts and purchase orders that we believe to be firm. The following table reflects our bookings and shipments on a quarterly basis for the period ended November 30, 2011, as compared to the same period in the prior fiscal year.

*Backlog Table**(In thousands)(Unaudited)*

| | Period Ended | | Period Ended | |
|--------------------|--------------|------------|--------------|------------|
| Backlog | 2/28/11 | \$ 108,379 | 2/28/10 | \$ 109,918 |
| Bookings | | 120,697 | | 78,603 |
| Shipments | | 114,333 | | 77,475 |
| Backlog | 5/31/11 | \$ 114,743 | 5/31/10 | \$ 111,046 |
| Book to Ship Ratio | | 1.06 | | 1.01 |
| Bookings | | 123,097 | | 95,033 |
| Shipments | | 114,661 | | 99,591 |
| Backlog | 8/31/11 | \$ 123,179 | 8/31/10 | \$ 106,488 |
| Book to Ship Ratio | | 1.07 | | .95 |
| Bookings | | 125,381 | | 98,096 |
| Shipments | | 116,493 | | 102,897 |
| Backlog | 11/30/11 | \$ 132,067 | 11/30/10 | \$ 101,687 |
| Book to Ship Ratio | | 1.08 | | .95 |

Table of Contents*Segment Revenues*

The following table reflects the breakdown of revenue by segment:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|----------------------------------|-------------------|-------------------|-------------------|
| | 11/30/2011 | 11/30/2010 | 11/30/2011 | 11/30/2010 |
| | <i>(In thousands)(Unaudited)</i> | | | |
| Revenue: | | | | |
| Electrical and Industrial Products | \$ 43,849 | \$ 41,051 | \$ 136,518 | \$ 118,980 |
| Galvanizing Services | 72,644 | 61,847 | 208,969 | 160,983 |
| Total Revenue | \$ 116,493 | \$ 102,898 | \$ 345,487 | \$ 279,963 |

For the three and nine-month periods ended November 30, 2011, consolidated revenues were \$116.5 million and \$345.5 million, respectively, a 13% and 23% increase, respectively, as compared to the same periods in fiscal 2011. The Electrical and Industrial Products Segment contributed 38% and 40% of the Company's revenues, respectively, and the Galvanizing Services Segment accounted for the remaining 62% and 60% of the combined revenues, respectively, for the three and nine-month periods ended November 30, 2011.

Revenues for the Electrical and Industrial Products Segment increased \$2.8 million, or 7%, for the three-month period ended November 30, 2011, and increased \$17.5 million, or 15%, for the nine-month period ended November 30, 2011, as compared to the same periods in fiscal 2011. The increased revenues for the three month and nine month periods ended November 30, 2011, resulted from higher demand from the power generation market as compared to the same periods last year. In addition, in the first quarter of fiscal 2012, we experienced an increase in quick turn jobs that were booked and shipped in the first quarter, which accounted for the additional increase in revenue for the nine month period ended November 30, 2011.

Revenues in the Galvanizing Services Segment increased \$10.8 million, or 17%, for the three-month period ended November 30, 2011, as compared to the same period in fiscal 2011 and increased \$48.0 million, or 30%, for the nine-month period ended November 30, 2011, as compared to the same period in fiscal 2011. The acquisition of NGA generated \$21.2 million and \$60.7 million, respectively, of this segment's revenues for the three and nine months periods ended November 30, 2011, compared to \$18.3 million and \$33.4 million for the three and nine months, respectively, in the prior year. The volume of steel processed for the three month period ended November 30, 2011 accounted for 16% of the increase in revenues and the remaining 1% was a result of an increase in selling price. The volume of steel processed for the nine month period ended November 30, 2011 accounted for 28% of the increase in revenues and the remaining 2% was a result of an increase in selling price. The acquisition of NGA accounted for 34% and 62% of the increase in volume, respectively, for the three and nine month periods ended November 30, 2011. Excluding the acquisition of NGA, volumes increased 17% and selling price increased 2% for the nine month period ended November 30, 2011. 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 | | Nine Months Ended | |
|---------------------------------------|----------------------------------|------------------|-------------------|------------------|
| | 11/30/2011 | 11/30/2010 | 11/30/2011 | 11/30/2010 |
| | <i>(In thousands)(Unaudited)</i> | | | |
| Segment Operating Income: | | | | |
| Electrical and Industrial Products | \$ 5,719 | \$ 6,185 | \$ 18,214 | \$ 20,333 |
| Galvanizing Services | 18,555 | 15,421 | 54,431 | 42,135 |
| Total Segment Operating Income | \$ 24,274 | \$ 21,606 | \$ 72,645 | \$ 62,468 |

Table of Contents

Our total segment operating income increased 12% for the quarter ended November 30, 2011 to \$24.3 million as compared to \$21.6 million for the same period in fiscal 2011. For the nine-month period ended November 30, 2011, our total segment operating income increased 16% to \$72.6 million, as compared to \$62.5 million for the same period ended November 30, 2010.

Segment operating income in the Electrical and Industrial Products Segment decreased 8% and 10% for the three and nine-month periods ended November 30, 2011, to \$5.7 million and \$18.2 million, respectively, as compared to \$6.2 million and \$20.3 million, respectively, for the same periods in fiscal 2011. Operating margins were 13% for both the three and nine-month periods ended November 30, 2011, as compared to 15% and 17% for both the comparable periods in fiscal 2011. Decreased operating margins for the three and nine months resulted from the less favorable pricing due to more competitive market conditions for the compared periods.

In the Galvanizing Services Segment, operating income increased 20% and 29% for the three and nine-month periods ended November 30, 2011, to \$18.6 million and \$54.4 million, respectively, as compared to \$15.4 million and \$42.1 million, respectively, for the same periods in fiscal 2011. Operating margins were 26% for both the three and nine-month periods ended November 30, 2011, as compared to 25% and 26%, respectively, for the comparable periods in fiscal 2011. The acquisition of NGA generated \$4.6 million and \$13.5 million, respectively, of this segment's operating income for the three and nine month periods ended November 30, 2011, compared to \$4.5 and \$8.0 million for the three and nine month periods, respectively, in the prior year. Operating margin improvements from operating efficiencies and increased plant utilization were offset by increased zinc costs for the compared periods.

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 November 30, 2011, were \$4.7 million compared to \$4.6 million for the same period in fiscal 2011. For the nine-month period ended November 30, 2011, general corporate expenses were \$15.8 million as compared to \$16.6 million for the comparable period last year. In the prior year, general corporate expenses included \$1.8 million of acquisition expenses related to the NGA acquisition for the nine month period. As a percentage of sales, general corporate expenses were 4% and 5%, respectively, for the three and nine-month periods ended November 30, 2011, as compared to 4% and 6% for the same periods in fiscal 2011. The decrease in General corporate expenses as a percentage of sales for the nine month period ended November 30, 2011, as compared to the same period in the prior year was a result of the NGA acquisition costs that were recorded in the prior year and increased revenues in the current fiscal year.

Interest

Net interest expense for the three and nine-month periods ended November 30, 2011 increased 97% and 99%, respectively, as compared to the same periods in fiscal 2011 to \$3.5 million for the three month and \$10.5 million for the nine month periods ended November 30, 2011. The additional interest expense was incurred on our \$125 million unsecured notes that were issued on January 21, 2011. We had outstanding long term debt of \$225 million as of November 30, 2011 and \$100.0 million as of November 30, 2010. Our long-term debt to equity ratio was .76 to 1 as of November 30, 2011, as compared to .40 to 1 at the same date in fiscal 2011.

Other (Income) Expense

For the three-month and nine-month periods ended November 30, 2011, 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 both the three and nine month periods ended November 30, 2011, and 36% and 37%, respectively, for the three and nine-month periods ended November 30, 2010. The increase in the effective tax rate is due to a valuation allowance of Canadian net operating loss carry forward during the current fiscal year. If future period estimates on utilization of this allowance change, there could be a favorable or unfavorable impact to our financial statements.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities, issuance of unsecured notes and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, debt repayment, possible future cash dividend payments 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, payment of debt, and possible future cash dividend payments and possible future acquisitions through the end of fiscal 2012.

Our operating activities generated cash flows of approximately \$46.8 million for the nine month period ended November 30, 2011, as compared to \$25.5 million for the same period in the prior fiscal year. Cash flows from operations for the nine month period ended November 30, 2011 included net income in the amount of \$29.1 million, depreciation and amortization in the amount of \$16.9 million, and other adjustments to reconcile net income to net cash in the amount of \$6.7 million. Included in other adjustments were share-based compensation expense in the amount of \$2.7 million, provisions for bad debts in the amount of \$.1 million, deferred income taxes in the amount of \$3.5 million, gain or loss on the sale of assets in the amount of \$.2 million, and other non-cash adjustments in the amount of \$.2 million. Negative cash flow was recognized due to increased accounts receivable, inventories and prepaid expenses in the amount of \$3.7 million, \$5.3 million and \$1.2 million, respectively, and decreased other accrued liabilities in the amount of \$.5 million. Positive cash flows were recognized due to increased accounts payable in the amount of \$2.6 million and decreased revenue in excess of billings in the amount of \$2.2 million. Accounts receivable average days outstanding were 48 days for both the nine month period ended November 30, 2011 and the same period in the prior fiscal year.

During the nine month period ended November 30, 2011, capital improvements were made in the amount of \$16.3 million.

During the nine month period ended November 30, 2011, dividends were paid in the amount of \$9.4 million.

Our working capital increased to \$238.1 million at November 30, 2011, as compared to \$98.6 million at November 30, 2010, primarily due to our issuance of \$125 million of notes on January 21, 2011.

On April 29, 2010, we entered into our Fifth Amended and Restated Credit Agreement (the *Credit Agreement*) with Bank of America, N.A. (*Bank of America*). The Credit Agreement provides for an \$80 million unsecured revolving line of credit with one lender, Bank of America, maturing on May 25, 2014. The facility is used to provide for working capital needs, capital improvements, future acquisitions and letter of credit needs. This amendment increased the amount of cash dividends the Company is allowed to pay to \$15 million annually and increased the basket for AZZ common stock repurchases to \$40 million over the life of the revolving line of credit.

The Credit Agreement provides various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$182.3 million plus 50% of future net income, b) maintain on a consolidated basis a Leverage Ratio (as defined in the Credit Agreement) not to exceed 3.25:1.0, c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of at least 1.75:1.0 and d) not to make Capital Expenditures (as defined in the Credit Agreement) on a consolidated basis in an amount in excess of \$30 million.

The Credit Agreement also provides for an applicable margin ranging from 1.00% to 1.75% over the Eurodollar Rate and Commitment Fees ranging from .20% to .30% depending on our Leverage Ratio.

Table of Contents

At November 30, 2011, we had no outstanding debt borrowed under the revolving credit facility and we had letters of credit outstanding at that date in the amount of \$14.9 million, which left approximately \$65.1 million of additional credit available under the revolving credit facility.

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 "2008 Notes") due March 31, 2018 through a private placement (the "2008 Note Offering"). Pursuant to the Note Purchase Agreement, the Company's payment obligations with respect to the 2008 Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement. In connection with the 2008 Note Offering, the Company entered into an amendment to our Credit Agreement. The Amendment contained the consent of Bank of America to the 2008 Note Offering, amended the Credit Agreement to provide that the 2008 Note Offering will not constitute a default under the Credit Agreement and amended the Credit Agreement to reflect the same financial covenants as the 2008 Notes.

The Company entered into an additional Note Purchase Agreement on January 21, 2011 (the "2011 Agreement"), pursuant to which the Company issued \$125 million aggregate principal amount of its 5.42% unsecured Senior Notes (the "2011 Notes"), due in January of 2021, through a private placement (the "2011 Note Offering"). Pursuant to the 2011 Agreement, the Company's payment obligations with respect to the 2011 Notes may be accelerated under certain circumstances. The Company anticipates using the proceeds from the 2011 Note Offering for possible future acquisitions, working capital needs, capital improvements and future cash dividend payments. In connection with the 2011 Note Offering, the Company obtained the consent of Bank of America to the 2011 Note Offering and the agreement of Bank of America that the 2011 Note Offering will not constitute a default under the Credit Agreement.

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$116.9 million plus 50% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) not at any time permit the 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).

We were in compliance at November 30, 2011 with all of our debt covenants.

On October 28, 2011, the Company entered into a Private Shelf Agreement by and among the Company, Prudential Investment Management, Inc. ("Prudential") and the other purchasers identified therein (the "Private Shelf Agreement"), pursuant to which the Company may issue and sell, through one or more private placement transactions, up to \$100 million aggregate principal amount of Senior Notes (the "Notes") with interest rates to be agreed upon by the Company and Prudential immediately prior to each issuance and sale of Notes (each, a "Note Offering" and together, the "Note Offerings"). Pursuant to the Private Shelf Agreement, the Company's payment obligations with respect to the Notes may be accelerated upon any Event of Default, as defined in the Private Shelf Agreement. The Company has obtained the consent of Bank of America, N.A. ("Bank of America") to the execution and delivery of the Private Shelf Agreement and to the Note Offerings so that undertaking the Note Offerings will not otherwise constitute a default under the Second Amended and Restated Credit Agreement Company by and among the Company, Bank of America and certain other lenders (including Bank of America) dated as of May 25, 2006, as amended, modified, supplemented, restated or amended and restated from time to time.

Our current ratio (current assets/current liabilities) was 4.18 to 1 at November 30, 2011, as compared to 2.81 to 1 at November 30, 2010. Our ratio of long-term debt to shareholders' equity was .76 to 1 at November 30, 2011 as compared to .40 to 1 at November 30, 2010.

Table of Contents

Historically, we have not experienced a significant impact on our operations from increases in general inflation other than for specific commodities. 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 the effect of these increases through escalation clauses in customer contracts for copper, aluminum and steel, when market conditions allow and through protective caps and fixed contract purchases on zinc. In addition to these measures, we attempt to recover 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 policies, 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 November 30, 2011 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 addition, we look to get firm pricing contracts from our vendors on material at the time we receive orders from our customers to minimize risk.

In the Galvanizing Services Segment, we utilize contracts with our zinc suppliers that include protective caps and fixed cost contracts 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 normal course of business.

Other

At November 30, 2011, we had outstanding letters of credit in the amount of \$14.9 million. These letters of credit are issued, in lieu of performance and bid bonds, to some of our customers to cover any potential warranty costs that we might incur. In addition, as of November 30, 2011, a warranty reserve in the amount of \$2.0 million has been established to offset any future warranty claims.

Table of Contents

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

| | Operating Leases | Long-Term Debt | Interest | Total |
|--------------|-----------------------|-------------------|------------------|-------------------|
| | <i>(In thousands)</i> | | | |
| 2012 | \$ 1,051 | \$ | \$ 3,388 | \$ 4,439 |
| 2013 | 4,019 | 14,286 | 12,569 | 30,874 |
| 2014 | 3,487 | 14,286 | 11,678 | 29,451 |
| 2015 | 3,327 | 14,286 | 10,786 | 28,399 |
| 2016 | 3,047 | 14,286 | 9,895 | 27,228 |
| Thereafter | 9,607 | 167,856 | 37,887 | 215,350 |
| Total | \$ 24,538 | \$ 225,000 | \$ 86,203 | \$ 335,741 |

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. 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 equity based compensation. 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 to the 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 to their inability to make payments and by 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 and 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 typically recognize revenue for the Galvanizing Service Segment 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.

Table of Contents

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. As a result of our testing, we have concluded goodwill is not reasonably likely to be impaired.

Accounting for Income Taxes We account for income taxes under the asset and liability method. 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. Deferred tax assets are 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 federal 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.

We account for uncertainties in income taxes, 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 requirements.

Equity Based Compensation Our employees and directors are periodically granted restricted stock units, stock options or stock appreciation rights by the Board of Directors. 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, with the exception of Restricted Stock Units, 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. Restricted Stock Units are valued at the stock price on the date of grant.

Table of Contents

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.

New Accounting Pronouncement

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment* (ASU 2011-08). This update is intended to simplify goodwill impairment testing by adding an optional qualitative review step to assess whether the required quantitative impairment analysis that exists under current GAAP is necessary. Under the amended rule, a company will not be required to calculate the fair value of a reporting unit that contains recorded goodwill unless it concludes, based on the qualitative assessment, that it is more likely than not (a likelihood of more than 50 percent) that the fair value of that reporting unit is less than its book value. If such a decline in fair value is deemed more likely than not to have occurred, then the quantitative goodwill impairment test that exists under current GAAP must be completed. If not, goodwill is deemed not impaired and no further testing is required until the next annual test date, unless conditions or events before that date raise concerns of potential impairment. The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. ASU 2011-08 is effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-08 will have a material effect on its financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which will enhance comparability between entities that report under GAAP and those that report under International Financial Reporting Standards (IFRS). ASU 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for the Company's interim and annual periods beginning after December 15, 2011 and must be applied retrospectively. Early adoption is permitted. The Company does not anticipate that the adoption of ASU 2011-05 will have a material effect on its financial position or results of operations.

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 customers' contracts, although during difficult market conditions these escalation clauses may not be obtainable. In addition, we look to get firm pricing contracts from our vendors on material at the time we receive orders from our customers to minimize risk. 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. 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.

Table of Contents

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 Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), 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. None.

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, 2011.

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

Item 3. Defaults Upon Senior Securities. None.

Item 4. Reserved.

Item 5. Other Information. None.

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 23, which immediately precedes such exhibits.

Table of Contents

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.

Date: 01/06/12

AZZ incorporated
(Registrant)

/s/ Dana Perry
Dana Perry, Senior Vice President for Finance

Principal Financial Officer

Table of Contents

EXHIBIT INDEX

- 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) 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(6) AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Proxy Statement for the 2008 Annual Shareholders Meeting).
- 10(7) 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(8) AZZ incorporated 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit A of the Proxy Statement for the 2001 Annual Shareholders Meeting).
- 10(9) AZZ incorporated 2003 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(10) 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(11) 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).

Table of Contents

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| 10(12) | 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(13) | 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). |
| 10(14) | Agreement and Plan of Merger by and among AZZ incorporated, Big Kettle Merger Sub, Inc. and North American Galvanizing and Coatings, Inc. dated as of March 31, 2010 (incorporated by reference to Exhibit 2(1) to the current report on Form 8-K filed by the registrant on April 1, 2010). |
| 10(15) | Stockholders Agreement by and among AZZ incorporated, Big Kettle Merger Sub, Inc. and certain stockholders of North American Galvanizing and Coatings, Inc. dated as of March 31, 2010 (incorporated by reference to Exhibit 2(2) to the current report on Form 8-K filed by the registrant on April 1, 2010). |
| 10(17) | Note Purchase Agreement, dated as of January 20, 2011, by and among AZZ incorporated and the purchasers identified therein (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by the registrant on January 31, 2011). |
| 31.1 | Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 6, 2012. Filed Herewith. |
| 31.2 | Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 6, 2012. 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 January 6, 2012. Filed Herewith. |
| 32.2 | Chief Financial Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated January 6, 2012. Filed Herewith. |
| *101.INS | XBRL Instance Document |
| *101.SCH | XBRL Taxonomy Extension Schema |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| *101.DEF | XBRL Taxonomy Definition Linkbase |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

*The exhibits shall be deemed furnished and not filed pursuant to Regulation S-T.