AZZ INC
Form 10-K/A
July 10, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended February 28, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 1-12777

AZZ incorporated

(Exact name of registrant as specified in its charter)

TEXAS	**75-0948250**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

University Centre I, Suite 200

1300 South University Drive

Fort Worth, Texas	**76107**
(Address of principal executive offices)	**(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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

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

As of August 31, 2006 (the last business day of its most recently completed second fiscal quarter), the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $153,633,396 based on the closing sale price of $30.75 per share as reported on the New York Stock Exchange (For purposes of determining the above stated amount, only the directors, executive officers and 10% or greater shareholders of the registrant have been deemed affiliates; however, this does not represent a conclusion by the registrant that any or all such persons are affiliates of the registrant).

As of February 28, 2007, there were 11,654,164 shares of the registrant s common Stock ($1.00 par value) outstanding, after giving effect to our two-for-one stock split, effective in the form of a share dividend on May 4, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the 2007 Annual Meeting of Shareholders to be held July 10, 2007	Part III

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of AZZ incorporated (the Company) for the fiscal year ended February 28, 2007 is being filed solely to include the report and consent of the Company s previous independent registered public accounting firm Ernst & Young LLP, which audited the financial statements of the Company for the Company s fiscal year ended February 28, 2006 and February 28, 2005. The report and consent were inadvertently omitted from the Company s Form 10-K filed on May 14, 2007 with the Securities and Exchange Commission.

Except as described above, no other changes have been made to the original Form 10-K, and this Form 10-K/A does not amend, update, or change the financial statements or any other items or disclosures in the original Form 10-K. This Form 10-K/A does not reflect events occurring after the filing of the Form10-K or modify or update those disclosures, including any exhibits to the Form 10-K affected by subsequent events. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on May 14, 2007. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K, including any amendments to those filings.

Table of Contents

PART II

Item 8. Financial Statements and Supplementary Data.

The Index to our Consolidated Financial Statements is found on page 4. Our Financial Statements and Notes to these Consolidated Financial Statements follow the index.

Item 15. Exhibits and Financial Statement Schedules.

A. Financial Statements

1. The financial statements filed as a part of this report are listed in the Index to Consolidated Financial Statements on page 4.

2. Financial Statements Schedules

Schedule II Valuation and Qualifying Accounts and Reserves filed as a part of this report is listed in the Index to Consolidated Financial Statements on page 4.

Schedules and compliance information other than those referred to above have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

B. 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 beginning on page 31, which immediately precedes such exhibits.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: 7/9/2007	By: /s/ Dana L. Perry Dana L. Perry, Principal Financial Officer and Director

3

Table of Contents

Index to Consolidated Financial Statements and Schedules

4

Table of Contents

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, (COSO). Based on our evaluation under the framework in COSO, our management concluded that our internal control over financial reporting was effective as of February 28, 2007. Our management s assessment of the effectiveness of our internal control over financial reporting as of February 28, 2007, has been audited by BDO Seidman LLP, an independent registered public accounting firm, as stated in their report included herein. Management s assessment of and conclusion of the effectiveness of internal control over financial reporting did not include the internal controls of Witt Galvanizing, which was acquired on November 1, 2006, and which is included in the consolidated balance sheet of AZZ incorporated as of February 28, 2007, and related consolidated statements of income, shareholders equity, and cash flows for the year then ended. Witt Galvanizing constituted less than 10% of revenues and net income for the year then ended. Management did not assess the effectiveness of internal controls over financial reporting of Witt Galvanizing because of the timing of the acquisition, which was completed on November 1, 2007.

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

AZZ incorporated

Fort Worth, Texas

We have audited the accompanying consolidated balance sheet of AZZ incorporated as of February 28, 2007 and the related consolidated statements of income, shareholders equity, and cash flows for the year ended February 28, 2007 and the schedule listed in Item 15 of this Form 10-K. We have also audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that AZZ incorporated maintained effective internal control over financial reporting as of February 28, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AZZ incorporated s management is responsible for these financial statements, financial statement schedule, and for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, financial statement schedule, management s assessment and on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement and schedule. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 1 to the consolidated financial statements, AZZ incorporated changed its method of accounting for share-based payment arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-based Payment*, effective March 1, 2006.

In our opinion, the consolidated financial statements and financial statement schedule referred to above present fairly, in all material respects, the financial position of AZZ incorporated at February 28, 2007 and the results of its operations and its cash flows for the period ended February 28, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management s assessment that AZZ

Table of Contents

incorporated maintained effective internal control over financial reporting as of February 28, 2007, is fairly stated, in all material respects, based on the COSO criteria. Furthermore in our opinion, AZZ incorporated maintained, in all material respects, effective internal control over financial reporting as of February 28, 2007, based on the COSO criteria.

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Witt Galvanizing, which was acquired on November 1, 2006, and which is included in the consolidated balance sheets of AZZ incorporated as of February 28, 2007, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended. Witt Galvanizing constituted less than 10% of total assets as of February 28, 2007, and less than 10% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Witt Galvanizing because of the timing of the acquisition which was completed on November 1, 2006. Our audit of internal control over financial reporting of AZZ incorporated also did not include an evaluation of the internal control over financial reporting of Witt Galvanizing.

/s/ BDO SEIDMAN, LLP
BDO SEIDMAN, LLP
Dallas, Texas

July 9, 2007

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

AZZ incorporated

We have audited the accompanying consolidated balance sheet of AZZ incorporated as of February 28, 2006 and the related consolidated statements of income, shareholders equity, and cash flows for each of the two years in the period ended February 28, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15A.2 for each of the two years in the period ended February 28, 2006. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AZZ incorporated at February 28, 2006 and the consolidated results of its operations and its cash flows for each of the two years in the period ended February 28, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule for each of the two years ended February 28, 2006, referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young, LLP

Fort Worth, Texas

April 14, 2006

Table of Contents

AZZ incorporated

CONSOLIDATED STATEMENTS OF INCOME

Years ended February 28, 2007, February 28, 2006 and February 28, 2005

	2007	2006	2005
Net sales	$ 260,343,667	$ 187,184,093	$ 152,427,904
Costs and expenses:			
Cost of sales	193,411,001	149,855,108	123,903,334
Selling, general, and administrative	31,948,452	23,898,755	19,622,388
Net (gain) loss from sale of or insurance settlement on property, plant and equipment	(586,001)	22,208	35,187
Interest expense	1,495,442	1,689,169	1,636,884
Other income	(524,973)	(312,346)	(344,045)
Other expenses			167,645
	225,743,921	175,152,894	145,021,393
Income before income taxes and accounting changes	34,599,746	12,031,199	7,406,511
Income tax expense	12,910,182	4,204,312	2,594,496
Income before cumulative effect of changes in accounting principles	$ 21,689,564	$ 7,826,887	$ 4,812,015
Cumulative effect of change in accounting principles (net of tax of $50,667)	85,344		
Net Income	$ 21,604,220	$ 7,826,887	$ 4,812,015
Earnings per common share:			
Basic earnings per share before effect of change in accounting	$ 1.87	$ .70	$ .44
Cumulative effect of change in accounting	$ .01		
Basic earnings per share after effect of change in accounting	$ 1.86	$ .70	$ .44
Diluted earnings per share before effect of change in accounting	$ 1.83	$ .69	$ .44
Cumulative effect of change in accounting	$ .01		
Diluted earnings per share after effect of change in accounting	$ 1.82	$ .69	$ .44
Weighted average number common shares	11,599,428	11,168,156	10,888,360
Weighted average number common shares and potentially dilutive common shares	11,838,612	11,316,084	11,033,358

See accompanying notes.

Table of Contents

AZZ incorporated

CONSOLIDATED BALANCE SHEETS

February 28, 2007 and February 28, 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 1,703,092	$ 1,258,945
Accounts receivable, net of allowance for doubtful accounts of $670,000 in 2007 and $400,000 in 2006	50,277,554	32,007,274
Inventories	45,487,266	24,137,216
Costs and estimated earnings in excess of billings on uncompleted contracts	8,286,324	2,499,200
Deferred income taxes	4,224,294	2,093,119
Prepaid expenses and other	1,988,834	1,455,217
Total current assets	111,967,364	63,450,971
Property, plant, and equipment, at cost:		
Land	2,992,863	2,225,058
Buildings and structures	31,981,329	28,626,646
Machinery and equipment	43,183,977	36,723,494
Furniture, fixtures, software and computers	8,395,328	7,650,770
Automotive equipment	1,927,445	1,755,371
Construction in progress	4,790,693	1,027,768
	93,271,635	78,009,107
Less accumulated depreciation	(46,643,316)	(42,311,802)
Net property, plant, and equipment	46,628,319	35,697,305
Goodwill	40,962,104	40,962,104
Other assets	1,349,791	915,791
	$ 200,907,578	$ 141,026,171

Table of Contents

AZZ incorporated

CONSOLIDATED BALANCE SHEETS (Continued)

February 28, 2007 and February 28, 2006

	2007	2006
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 25,316,165	$ 15,840,980
Income tax payable	688,000	862,472
Accrued salaries and wages	5,025,508	3,620,099
Other accrued liabilities	13,716,603	5,271,731
Customer advance payment	2,900,702	2,039,386
Billings in excess of costs and estimated earnings on uncompleted contracts	2,067,945	2,398,840
Long-term debt due within one year		5,500,000
Total current liabilities	49,714,923	35,533,508
Long-term debt due after one year	35,200,000	14,375,000
Deferred income taxes	4,844,405	3,849,022
Commitments and Contingencies		
Shareholders equity:		
Common stock, $1 par value; 25,000,000 shares authorized; 12,609,160 shares issued at February 28, 2007 and February 28, 2006	12,609,160	12,609,160
Capital in excess of par value	11,086,703	9,608,026
Retained earnings	91,861,526	70,257,305
Cumulative other comprehensive income	28,621	44,226
Less common stock held in treasury, at cost (954,996 shares in 2007 and 1,129,500 shares in 2006)	(4,437,760)	(5,250,076)
Total shareholders equity	111,148,250	87,268,641
	$ 200,907,578	$ 141,026,171

See accompanying notes.

Table of Contents

AZZ incorporated

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended February 28, 2007, February 28, 2006 and February 28, 2005

	2007	**2006**	**2005**
Cash flows from operating activities:			
Net income	$ 21,604,220	$ 7,826,887	$ 4,812,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,478,441	5,535,362	5,492,439
Amortization	181,203	184,304	160,437
Non-cash compensation expense	763,957	141,200	125,000
Non-cash interest expense	155,841	166,696	219,619
Provision for doubtful accounts	450,796	(596,205)	495,037
Deferred income tax expense (benefit)	(1,127,389)	477,126	735,869
Cumulative effect of change in accounting principle	85,344		
Net (gain) loss on insurance settlement or sale of property, plant and equipment	(586,001)	22,208	35,187
Effects of changes in operating assets and liabilities:			
Accounts receivable	(16,126,028)	(5,471,524)	(4,537,320)
Inventories	(17,413,761)	(4,531,439)	(1,926,861)
Prepaid expenses and other assets	(402,038)	(798,315)	(236,508)
Net change in billings related to costs and estimated earnings on uncompleted contracts	(6,118,020)	2,233,416	(2,129,803)
Accounts payable	8,686,064	3,352,880	2,502,488
Other accrued liabilities and income taxes	10,294,892	4,251,174	723,714
Net cash provided by operating activities	6,927,521	12,793,770	6,471,313
Cash flows from investing activities:			
Proceeds from the sale or insurance settlement of property, plant and equipment	749,118	658,480	11,300
Acquisition of subsidiaries, net of cash acquired	(13,425,967)		
Purchases of property, plant and equipment	(10,658,561)	(6,601,824)	(6,649,185)
Net cash used in investing activities	(23,335,410)	(5,943,344)	(6,637,885)

Table of Contents

AZZ incorporated

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years ended February 28, 2007, February 28, 2006 and February 28, 2005

	2007	2006	2005
Cash flows from financing activities:			
Proceeds from revolving loan	39,340,482	11,000,000	16,000,000
Payments on revolving loan	(11,640,482)	(15,000,000)	(12,000,000)
Payments on long-term debt	(12,375,000)	(5,500,000)	(5,500,000)
Proceeds from exercise of stock options	1,527,036	3,391,691	738,418
Net cash provided by (used in) financing activities	16,852,036	(6,108,309)	(761,582)
Net increase (decrease) in cash and cash equivalents	444,147	742,117	(928,154)
Cash and cash equivalents at beginning of year	1,258,945	516,828	1,444,982
Cash and cash equivalents at end of year	$ 1,703,092	$ 1,258,945	$ 516,828
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,310,138	$ 1,460,495	$ 1,438,402
Income taxes	$ 13,849,408	$ 2,468,057	$ 1,835,499

See accompanying notes.

13

Table of Contents

AZZ incorporated

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years ended February 28, 2007, February 28, 2006 and February 28, 2005

	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Retained earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at February 29, 2004	12,609,160	$ 12,609,160	$ 7,651,436	$ 57,618,403	$ (324,306)	$ (8,257,134)	$ 69,297,559
Exercise of stock options			30,253			708,165	738,418
Stock compensation			50,520			74,480	125,000
Federal income tax deducted on stock options			77,364				77,364
Comprehensive income:							
Net income				4,812,015			4,812,015
Other comprehensive income, net of tax:							
Unrealized gain on market value of interest rate swaps, net of $166,181 of income tax					268,821		268,821
Comprehensive income							5,080,836
Balance at February 28, 2005	12,609,160	$ 12,609,160	$ 7,809,573	$ 62,430,418	$ (55,485)	$ (7,474,489)	$ 75,319,177
Exercise of stock options			1,241,758			2,149,933	3,391,691
Stock compensation			66,720			74,480	141,200
Federal income tax deducted on stock options			489,975				489,975
Comprehensive income:							
Net income				7,826,887			7,826,887
Other comprehensive income, net of tax:							
Unrealized gain on market value of interest rate swaps, net of $56,401 of income tax					99,711		99,711
Comprehensive income							7,926,598
Balance at February 28, 2006	12,609,160	$ 12,609,160	$ 9,608,026	$ 70,257,305	$ 44,226	$ (5,250,076)	$ 87,268,641
Exercise of stock options			523,105			737,836	1,260,941
Stock compensation			689,477			74,480	763,957
Federal income tax deducted on stock options			266,095				266,095
Other comprehensive income, net of tax:							
Net income				21,604,221			21,604,221
Other comprehensive income, net of tax:							
Unrealized gain (loss) on market value of interest rate swaps, net of ($8,403) of income tax					(15,605)		(15,605)
Comprehensive income							21,588,616

Balance at February 28, 2007	12,609,160	$ 12,609,160	$ 11,086,703	$ 91,861,526	$ 28,621	$ (4,437,760)	$ 111,148,250

See accompanying notes.

14

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Organization AZZ incorporated (the Company) operates primarily in the United States. Information about the Company s operations by segment is included in Note 11 to the consolidated financial statements.

Basis of consolidation The consolidated financial statements include the accounts of AZZ incorporated and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Capital Structure On April 5, 2007, our Board of Directors authorized a two-for-one split of common stock, to be effected in the form of a share dividend of one share of Common Stock for every one share of Common Stock outstanding. The dividend was paid on May 4, 2007 to shareholders of record on April 20, 2007. All share and per share data provided herein give effect to this stock split, applied retroactively.

Use of estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, trade accounts receivable and interest rate swaps. See further discussion on the credit risk associated with the interest rate swaps in Note 10 to the consolidated financial statements.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the United States and Company policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company s banking relationships. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the Company s diversity by virtue of two operating segments, the number of customers, and the absence of a concentration of trade accounts receivable in a small number of customers. The Company performs continual evaluations of the collectibility of trade accounts receivable and reserve for doubtful accounts based upon historical losses, economic conditions and customer specific events. After all collection efforts are exhausted and the account is deemed uncollectible, it is written off against the allowance for doubtful accounts. The Company s net credit losses in 2007, 2006 and 2005 were approximately $181,000, $366,000 and $138,000, respectively. Collateral is usually not required from customers as a condition of sale.

Revenue recognition The Company recognizes revenue for the Electrical and Industrial Products Segment upon transfer of title and risk to customer, or based upon the percentage-of-completion method of accounting for electrical products built to customer specifications under long-term contracts. Revenue for the Galvanizing Services Segment is recognized upon completion of galvanizing services or shipment of product. 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 estimated total contract costs at completion. Costs and estimated earnings in excess of related billings on uncompleted contracts are recorded as current assets and billings in excess of costs and estimated earnings on uncompleted contracts are recorded as current liabilities. Contract costs include all direct material and labor, 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 estimable.

Cash and cash equivalents For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits with banks and all highly liquid investments with an original maturity of three months or less.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Shipping and handling cost The shipping and handling cost are shown net (gross collection less actual cost) within net sales on the Consolidated Statement of Income.

Inventories Cost is determined principally using a weighted-average method for the Electrical and Industrial Products Segment and the first-in-first-out (FIFO) method for the Galvanizing Services Segment.

Property, plant and equipment For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and structures	10-25 years
Machinery and equipment	3-15 years
Furniture and fixtures	3-15 years
Automotive equipment	3 years

Maintenance and repairs are charged to expense as incurred; renewals and betterments that significantly extend the useful life of the asset are capitalized.

Long-lived assets, intangible assets and goodwill Purchased intangible assets included on the balance sheet as other assets are comprised of customer lists, backlogs and non-compete agreements. Such intangible assets are being amortized using the straight-line method over the estimated useful lives of the assets ranging from two to fifteen years. The Company records 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 loss on a long-lived asset is measured based on the excess of the carrying amount of the asset over the asset s fair value, generally determined based upon discounted estimates of future cash flows. For goodwill, the Company performs an annual impairment test in the fourth quarter of each year or as indicators are present in accordance with SFAS No. 142.

Debt issue costs Debt issue costs, included in other assets, are amortized using the effective interest rate method over the term of the debt.

Income taxes Income tax expense is based on the liability method. Under this method of accounting, deferred tax assets and liabilities are recognized based on differences between financial accounting and income tax basis of assets and liabilities using presently enacted tax rates and laws.

Stock-based compensation The Company has granted stock options or stock appreciation rights for a fixed number of shares to employees and directors.

Prior to March 1, 2006, we accounted for stock options granted to our employees and directors under the recognition and measurement provisions of APB Opinion 25, Accounting for Stock Issued to Employees and related Interpretations, as permitted by FASB statement No. 123, Accounting for Stock-Based Compensation. For our stock options, no stock based compensation expense was recognized in our financial statements prior to March 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock at the date of grant. Effective March 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123R, Share-Based Payment, using the modified prospective transition method. Under this method, compensation cost recognized for fiscal 2007 includes compensation cost of $145,000 for share-based payments granted prior to, but not yet vested as of, February 28, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123. As of February 28, 2007, we had $6,000 of unrecognized compensation cost related to unvested options.

We also began granting stock appreciation rights, or SARs, in the first quarter of fiscal 2005 as part of our stock-based compensation plans. The SARs granted in fiscal 2005 and fiscal 2006 will be settled in cash. Prior to March 1, 2006, we accounted for these SAR grants under the recognition and measurement

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provisions of APB Opinion No. 25, which required expense to be recognized equal to the amount by which the quoted market value exceeded the original grant price on a mark-to-market basis. Therefore, we recognized $757,000 of compensation expense prior to February 28, 2006. On March 1, 2006, as required under the provisions of Statement 123R, those SARs granted prior to, but not yet vested as of, February 28, 2006, were recorded at their fair value estimated in accordance with Statement 123R, and a cumulative effect of change in accounting principle was recorded in the amount of $85,300, net of tax. Additional compensation expense for these SARs in the amount of $3.5 million was recorded for fiscal 2007 based on their fair value in accordance with Statement 123R.

As a result of adopting Statement No. 123R on March 1, 2006, our income before taxes and net income for fiscal 2007 is $205,000 and $129,000, respectively, lower than if we had continued to account for share-based compensation under Opinion No. 25.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement No. 123R to options and SARs granted under our stock-based compensation plans for fiscal 2006 and fiscal 2005. For the purpose of this pro forma disclosure, the value is estimated using a Black-Scholes option-pricing formula and amortized to expense over the option s vesting periods.

	2006	2005
	(in thousands except per share)	
Reported net income	$ 7,827	$ 4,812
Recognized Compensation, net of tax	570	95
Compensation expense per SFAS No.123R, net of tax	(981)	(488)
Pro forma net income for SFAS No. 123R	$ 7,417	$ 4,419
Reported earnings per common share:		
Basic	$ .70	$ .44
Diluted	$ .69	$ .44
Compensation expense per SFAS No 123R:		
Basic	$ (.04)	$ (.03)
Diluted	$ (.03)	$ (.04)
Pro forma earnings per common share:		
Basic	$ .66	$ .41
Diluted	$ .66	$ .40

On June 1, 2006, we granted 234,160 SARs to be settled in stock. The weighted average fair value of SARs granted on June 1, 2006 was determined to be $2.92 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 expense related to the June 1, 2006 grant was $392,000 for fiscal 2007. As of February 28, 2007, we had unrecognized cost of $291,000 related to June 1, 2006 SARs grants.

Financial instruments The Company s financial instruments consist of cash and cash equivalents, accounts receivable, long-term debt and interest rate swaps. The fair value of financial instruments approximate the amount of their carrying value. The Company utilizes interest rate swaps to manage variable interest rate risk associated with portions of its long-term debt. The fair value of interest rate swap agreements is based on quotes obtained from financial institutions as well as an assessment of the hedges effectiveness. Information about the Company s swap agreements is included in Note 10 to the consolidated financial statements.

Derivative financial instruments From time to time, the Company uses derivatives to manage interest rate risk. The Company s policy is to use derivatives for risk management purposes only, which includes

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

maintaining the ratio between the Company s fixed and floating rate debt obligations that management deems appropriate, and prohibits entering into such contracts for trading purposes. The Company enters into derivatives only with counterparties (primarily financial institutions) which have substantial financial wherewithal to minimize credit risk. The amount of gains or losses from the use of derivative financial instruments has not been and is not expected to be material to the Company s consolidated financial statements.

Warranty reserves Within other accrued liabilities, a reserve has been established to provide for the estimated future cost of warranties on a portion of the Company s delivered products. Management periodically reviews the reserves, and adjustments are made accordingly. A provision for warranty on products is made on the basis of the Company s historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following is a roll-forward of amounts accrued for warranty reserves:

	Warranty Reserve (in thousands)	
Balance at February 28, 2004	$	879
Warranty costs incurred		(876)
Additions charged to income	$	1,002
Balance at February 28, 2005	$	1,005
Warranty costs incurred		(1,050)
Additions charged to income		1,147
Balance at February 28, 2006	$	1,102
Warranty costs incurred		(888)
Additions charged to income		1,364
Balance at February 28, 2007	$	1,578

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes : an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies Statement 109, Accounting for Income Taxes , to indicate the criteria that an individual tax position would have to meet for some or all of the benefit of that position to be recognized in an entity s financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006, and we will adopt the new requirements in our first quarter of fiscal 2008. The cumulative effects if any, of adopting FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. We continue to evaluate the impact of adopting FIN 48, but we do not expect the impact on our consolidated financial statements to be material.

In September 2006, the FASB issued Statement 157 (SFAS 157), *Fair Value Measurements*. This Statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. While SFAS 157 does not require any new value measurements, it may change the application of fair value measurements embodied in other accounting standards. SFAS 157 will be effective at the beginning of the Company s 2008 fiscal year. The Company is currently assessing the effect of this pronouncement, but we do not expect the impact on our consolidated financial statements to me material.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Inventories

Inventories consist of the following:

	2007	2006
	(In thousands)	
Raw materials	$ 31,724	$ 14,796
Work-in-process	11,458	7,844
Finished goods	2,305	1,497
	$ 45,487	$ 24,137

3. Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consist of the following:

	2007	2006
	(In thousands)	
Costs incurred on uncompleted contracts	$ 27,593	$ 12,361
Estimated earnings	12,498	5,158
	40,091	17,519
Less billings to date	33,872	17,419
	$ 6,219	$ 100

The amounts noted above are included in the accompanying consolidated balance sheet under the following captions:

	2007	2006
	(In thousands)	
Cost and estimated earnings in excess of billings on uncompleted contracts	$ 8,286	$ 2,499
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,067)	(2,399)
	$ 6,219	$ 100

4. Other accrued liabilities

Other accrued liabilities consist of the following:

	2007	2006
	(In thousands)	
Accrued warranty	$ 1,578	$ 1,102
Group medical insurance	780	475
Profit sharing	3,105	
Compensation expense related to stock appreciation rights	4,418	757
Other	3,836	2,938
	$ 13,717	$ 5,272

5. Employee benefit plans

The Company has a trustee profit sharing plan and 401(k) plan covering substantially all of its employees. Under the provisions of the plan, the Company contributes amounts as authorized by the Board of Directors. Total contributions to the profit sharing plan, which included the Company s 401(k) matching, were $3,832,000 for 2007, $528,000 for 2006, and $488,000 for 2005.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income taxes

Deferred federal and state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes. Significant components of the Company s net deferred income tax liability are as follows:

	2007	2006
	(In thousands)	
Deferred income tax liabilities:		
Depreciation methods and property basis differences	(1,744)	(1,616)
Other assets	(3,100)	(2,233)
Total deferred income tax liabilities	(4,844)	(3,849)
Deferred income tax assets:		
Employee related items	2,245	624
Inventories	226	226
Accrued warranty	592	402
Accounts receivable	251	146
Other	910	695
Total deferred income tax assets	4,224	2,093
Net deferred income tax liabilities	$ (620)	$ (1,756)

The provision for income taxes, including tax effect of change in accounting principle, consists of:

	2007	2006	2005
		(In thousands)	
Federal:			
Current	$ 12,914	$ 3,467	$ 1,713
Deferred	(1,440)	484	692
State:			
Current	1,451	260	146
Deferred	(65)	(7)	43
	$ 12,860	$ 4,204	$ 2,594

A reconciliation from the federal statutory income tax rate to the effective income tax rate is as follows:

	2007	2006	2005
Statutory federal income tax rate	35.0%	34.0%	34.0%
Expenses not deductible for tax purposes	.3	.6	1.0
State income taxes, net of federal income tax benefit	2.5	1.8	2.5

Benefit of section 199, manufacturing deduction	(1.1)	(.8)	
Other	.6	(.6)	(2.5)
Effective income tax rate	37.3%	35.0%	35.0%

7. Intangible assets and goodwill

Goodwill and intangible assets with indefinite lives are not amortized but are subject to annual impairment tests. Other intangible assets with finite lives continue to be amortized over their useful lives.

The Company completed its annual impairment analysis of goodwill and determined that there was no impairment of goodwill as of December 31, 2006, 2005, and 2004.

In addition to other miscellaneous assets, the Company classifies its intangible assets other than goodwill in other assets on the consolidated balance sheet.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets consisted of the following:

	2007	2006
	(In thousands)	
Customer related intangibles	$ 765	$ 0
Non-compete agreements	1,183	1,183
	1,948	1,183
Less accumulated amortization	761	580
	$ 1,187	$ 603

Accumulated amortization related to customer related intangibles and non-compete agreements were $30,000 and $731,000, respectively, at February 28, 2007 and $0 and $580,000, respectively, at February 28, 2006.

Customer related intangibles were acquired as part of the purchase of Witt Galvanizing, Incorporated on November 1, 2006.

The Company recorded amortization expenses for Fiscal 2007 in the amount of $181,000. The following table projects the estimated amortization expense for the five succeeding fiscal years and thereafter.

	(In thousands)
2008	$ 200
2009	200
2010	151
2011	98
2012	98
Thereafter	440
Total	$ 1,187

8. Earnings per share

Basic earning per share is based on the weighted average number of shares outstanding during each year. Diluted earnings per share were similarly computed but have been adjusted for the dilutive effect of the weighted average number of stock options and stock appreciation rights outstanding. The shares and earnings per share have been adjusted to reflect our two-for-one stock split, effected in the form of a share dividend on May 4, 2007.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2007	2006	2005
	(In thousands, except share and per share amounts)		
Numerator:			
Income before cumulative effect of changes in accounting principles	$ 21,689	$ 7,827	$ 4,812
Cumulative effect of accounting change	(85)		
Net income for basic and diluted earnings per common share	$ 21,604	$ 7,827	$ 4,812
Denominator:			
Denominator for basic earnings per common share - weighted-average shares	11,599,428	11,168,156	10,888,360
Effect of dilutive securities:			
Stock options	239,184	147,928	144,998
Denominator for diluted earnings per common share - adjusted weighted- average shares	11,838,612	11,316,084	11,033,358
Earnings per share basic and diluted:			
Before cumulative effect of change in accounting principles			
Basic earnings per common share	$ 1.87	$ .70	$ .44
Diluted earnings per common share	$ 1.83	$ .69	$ .44
After cumulative effect of change in accounting principles			
Basic earnings per common share	$ 1.86	$ .70	$ .44
Diluted earnings per common share	$ 1.82	$ .69	$ .44

Stock options for which the exercise price was greater than the average market price of common shares were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. At the end of fiscal years 2007, 2006 and 2005, there were none, 588,456, and 843,820 stock options, respectively, outstanding with exercise prices greater than the average market price of common shares.

9. 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 and options to purchase common stock of the Company. The maximum number of shares that may be issued under the 2005 Plan is 500,000 shares. At February 28, 2007, 234,160 Stock Appreciations Rights were outstanding under the 2005 Plan with an exercise price of $11.55. These rights vest from immediately to three years depending on if the employee or director meets requirements for retirement per Company policy. 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 expense related to the June 1, 2006 grant was $392,000 for fiscal 2007. As of February 28, 2007, we had unrecognized cost of $291,000 related to June 1, 2006 SARs grants.

During fiscal 2002, the Company adopted the AZZ incorporated 2001 Long-Term Incentive Plan (2001 Plan). The purpose of the 2001 Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees, directors and advisors restricted stock and options to purchase 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

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

under pre-existing option plans were terminated. At February 28, 2007, 530,430 options were outstanding under the 2001 Plan of which 464,615 were vested and exercisable at prices ranging from $4.215 to $12.125 per share. Options under the 2001 Plan vest from immediately upon issuance to ratably over a period of three to five years and expire at various dates through March 2013. There were no new options or Stock Appreciation Rights granted under the 2001 plan during fiscal 2007.

In addition to the 2001 Plan, the Company has options that were issued but not exercised under the 1991 Non-Statutory Stock Option Plan, (the 1991 NSO Plan) and the 1997 Non-Statutory Stock Option Grants, (the 1997 Grants). The period during which options could be issued under the 1991 NSO Plan expired prior to the adoption of the 2001 Plan but some options previously granted under the 1991 NSO Plan remain exercisable. At February 28, 2007, 61,000 options were outstanding under these plans and grants all of which were vested and exercisable at prices ranging from $5.5625 to $13.44 per share. Options under these plans and grants expire at various dates through November 2007.

During fiscal 2007, 2006 and 2005, the Company granted its directors and advisory directors 16,000 shares of the Company s common stock for each of the fiscal years. Stock compensation expense was recognized with regard to these grants in the amount of $227,000 for fiscal 2007, $141,000 for fiscal 2006, and $125,000 for fiscal 2005.

On April 7, 2005, the Company implemented Stock Appreciation Rights Plans for its key employees and directors. The purpose of the Plans are to enable the Company to attract and retain qualified key employees and directors by offering to them the opportunity to share in increases in the value of the Company to which they contribute. The Company made grants under this plan in fiscal 2005 and fiscal 2006. The grants outstanding were 197,520 for fiscal 2005 and 230,380 for fiscal 2006. The grants for fiscal 2005 are fully vested and the fiscal 2006 rights which have not previously accelerated due to events such as death or disability will vest on February 28, 2008. The value of each vested right will be paid in cash and such value, for rights vesting on the Company s earnings release date for the fiscal year ended February 28, 2007 and February 28, 2008, shall be equal to the excess, if any, (i) of the average of the closing prices of a share of Common Stock on the New York Stock Exchange for those days on which it trades during the ninety calendar days immediately following the public release of financial results for the period ended February 28, 2007 and February 28, 2008, over (ii) the average of the closing prices of a share of Common Stock on the New York Stock Exchange for those days on which it trades during the ninety calendar days immediately following the Company s year end earnings release date, which was $7.725 per share for the fiscal 2005 grants and $7.98 for the fiscal 2006 grants. To determine the cash payment, the excess in the average stock price will be multiplied by the number of Stock Appreciation Rights granted to each participant. The value of rights vesting before the normal vesting date will be measured by reference to the price of the Common Stock during a period at or near the accelerated vesting date. The Company has recognized $4.4 million for compensation expense related to the Stock Appreciation Rights Plans using fair value in accordance with 123R.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company s stock option and equity settled Stock Appreciation Rights activity and related information is as follows:

	2007		2006		2005	
	Options/ SAR s	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	754,776	$ 7.90	1,368,178	$ 7.77	1,572,492	$ 7.65
Granted	234,160	11.55				
Exercised	(158,504)	7.96	(461,858)	7.35	(152,130)	4.86
Forfeited	(4,842)	8.80	(151,544)	8.34	(52,184)	9.87
Outstanding at end of year	825,590	$ 8.92	754,776	$ 7.90	1,368,178	$ 7.77
Exercisable at end of year	620,834	$ 8.78	588,270	$ 8.57	1,055,756	$ 8.14
Weighted average fair value for the fiscal year indicated of options and SARs granted during such year		$ 2.915		N/A		N/A

The aggregate intrinsic value of the equity settled Stock Appreciation Rights and stock options for the outstanding shares/ stock appreciation rights and exercisable shares/ stock appreciation rights at February 28, 2007 were $9.4 million and $7.1 million, respectively.

The following table summarizes additional information about stock options and stock appreciation rights outstanding at February 28, 2007.

Range of Exercise Prices	Total Shares/ SAR s	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares / SAR s Currently Exercisable	Weighted Average Exercise Price
$ 4.215 - $ 6.55	260,418	5.0	$ 4.97	194,602	$ 5.03
$ 7.70 - $ 9.90	170,012	4.1	$ 8.33	170,012	$ 8.33
$ 11.55 - $ 12.125	395,160	3.3	$ 11.78	256,220	$ 11.91
$ 4.125 - 12.125	825,590	4.0	$ 8.92	620,834	$ 8.78

24

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective January 7, 1999, the Board of Directors approved a stock rights plan, which authorized and declared a dividend distribution of one right for each share of common stock outstanding at the close of business on February 4, 1999. The rights are exercisable at an initial exercise price of $30, subject to certain adjustments as defined in the agreement, if a person or group acquires 15% or more of the Company s common stock or announces a tender offer that would result in ownership of 15% or more of the common stock. Alternatively, the rights may be redeemed at one cent per right at any time until ten business days following the first public announcement of the acquisition of beneficial ownership of 15% of the Company s common stock. The rights expire on January 7, 2009.

As of February 28, 2007, the Company has approximately 1,325,574 and 11,065,266 shares, respectively reserved for future issuance under the stock option plans and the shareholder rights plan.

10. Long-term debt
Long-term debt consists of the following:

	2007	2006
	(In thousands)	
Term note payable to bank, paid on May 25, 2006	$ 0	$ 12,375
Revolving line of credit with bank, due May 25, 2011	35,200	7,500
	35,200	19,875
Less amount due within one year		5,500
	$ 35,200	$ 14,375

On May 25, 2006, we entered into the Second Amended and Restated Credit Agreement (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 refinanced outstanding borrowings and is used to provide for working capital needs, capital improvements, future acquisitions, and letter of credit needs. At February 28, 2007, we had $35.2 million borrowed against the revolving credit facility and letters of credit outstanding in the amount of $11.2 million, which left approximately $13.6 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants consisting of a) Minimum Consolidated Net Worth maintain on a consolidated basis net worth equal to at least the sum of $69.8 million, representing 80% of net worth at February 28, 2006, plus 75% of future net income, b) Maximum Leverage Ratio- maintain on a consolidated basis a Leverage Ratio (as defined in the Credit Agreement) not to exceed 3.0:1.0, c) Fixed Charge Coverage Ratio- maintain on a consolidated basis a Fixed Charge Coverage Ratio of at least 1.5:1.0 and d) Capital Expenditures- not to make Capital Expenditures on a consolidated basis in an amount in excess of $14 million during any fiscal year.

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. The applicable margin was .75% at February 28, 2007. The variable interest rate including the applicable margin was 6.11% as of February, 2007.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Maturities of long-term debt are as follows (in thousands):

2008	$ 0
2009	
2010	
2011	
2012	35,200
	$ 35,200

We utilize interest rate protection agreements to moderate the effects of increases, if any, in interest rates by swapping interest obligations on long-term debt from a variable rate to a fixed rate. Presently, we have one outstanding interest rate swap. On March 31, 2005, we entered into an interest rate protection agreement (the 2005 Swap Agreement) which matures in March 2008, whereby we pay a fixed rate of 5.20% in exchange for a variable 30-day LIBOR rate plus .75% (6.07% at February 28, 2007). At February 28, 2007, the remaining notional amount is $6,875,000. Prior to May 2006, this swap was treated as a cash flow hedge of our variable interest rate exposure. However, when we refinanced our Credit Agreement in May 2006, we chose to cease the hedge designation for the 2005 Swap Agreement while not terminating the swap agreement. Since that time, we began recognizing changes in the fair value of this swap directly into earnings, while amortizing the pretax amount included in accumulated other comprehensive income as additional interest income. For fiscal 2007, we amortized $37,000 of interest income and recognized mark-to-market loss of $53,000 for subsequent changes in the fair value of this swap. At February 28, 2007, the fair value of the 2005 Swap Agreement was an asset of $28,000, and a gain of $29,000, net of tax, remains in accumulated other comprehensive income to be amortized as additional interest income. Given the maturity date of this interest rate swap, all amounts in accumulated other comprehensive income are expected to flow through earnings by March 31, 2008.

11. Operating segments

The Company has two reportable segments as defined by the FASB No. 131, *Disclosures about Segments of an Enterprise and Related Information*: (1) Electrical and Industrial Products and (2) Galvanizing Services. The Electrical and Industrial Products Segment provides highly engineered specialty components to the power generation transmission and distribution market, as well as products to the industrial market. The Galvanizing Services Segment provides hot dip galvanizing services to the steel fabrication industry through facilities located throughout the south, midwest and southwest. Hot dip galvanizing is a metallurgical process by which molten zinc is applied to a customer s material. The zinc bonding renders a corrosive resistant coating enhancing the life of the material for up to fifty years.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding operations and assets by segment is as follows:

	2007	2006 (In thousands)	2005
Net sales:			
Electrical and Industrial Products	$ 150,250	$ 123,736	$ 100,542
Galvanizing Services	110,094	63,448	51,886
	$ 260,344	$ 187,184	$ 152,428
Segment Operating income (a):			
Electrical and Industrial Products	$ 21,301	$ 11,357	$ 7,282
Galvanizing Services	31,945	12,676	9,556
Total Segment Operating Income	53,246	24,033	16,838
General corporate expenses (b)	17,074	10,218	7,718
Interest expense	1,496	1,689	1,637
Other (income) expense, net (c)	76	95	76
	18,646	12,002	9,431
Income before income taxes and accounting changes	$ 34,600	$ 12,031	$ 7,407
Depreciation and amortization:			
Electrical and Industrial Products	$ 1,826	$ 1,734	$ 1,860
Galvanizing Services	4,001	3,295	3,423
Corporate	988	857	589
	$ 6,815	$ 5,886	$ 5,872
Expenditures for acquisitions, net of cash, and property, plant and equipment:			
Electrical and Industrial Products	$ 5,425	$ 1,395	$ 803
Galvanizing Services	17,990	2,581	3,588
Corporate	669	2,626	2,258
	$ 24,084	$ 6,602	$ 6,649
Total assets:			
Electrical and Industrial Products	$ 112,822	$ 84,266	$ 79,424
Galvanizing Services	81,076	50,160	45,042
Corporate	7,010	6,600	4,169
	$ 200,908	$ 141,026	$ 128,635
Goodwill:			
Electrical and Industrial Products	$ 30,997	$ 30,997	$ 30,997

Galvanizing Services	9,965	9,965	9,965
	$ 40,962	$ 40,962	$ 40,962

(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.

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commitments and contingencies

Leases

The Company leases various facilities under non-cancelable operating leases with an initial term in excess of one year. As of February 28, 2007, the future minimum payments required under these operating leases are summarized in the below table. Rental expense for real estate and personal property was approximately $2,517,000, $2,211,000, and $2,071,000 for fiscal years ended 2007, 2006 and 2005, respectively, and includes all short-term as well as long-term rental agreements.

Commodity pricing

The Company manages its exposures to commodity prices through the use of the following.

In the Electrical and Industrial Products Segment, the Company has 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 to the customer s contracts, although during difficult market conditions these escalation clauses may be difficult to obtain.

In the Galvanizing Services Segment, the Company utilizes contracts with its zinc suppliers that include protective caps to guard against rising commodity prices. The Company also secures firm pricing for natural gas supplies with individual utilities when possible. There are no contracted volume purchase commitments associated with the zinc or natural gas agreements. Management believes these contractual agreements partially offset exposure to commodity price swings.

There are no contracted purchase commitments for any other commodity items including steel, aluminum, natural gas, copper, zinc or any other commodity.

Other

At February 28, 2007, the Company had outstanding letters of credit in the amount of $11.2 million. These letters of credit are issued to a portion of the Company s customers to cover any potential warranty costs that the customer might incur and in lieu of performance and bid bonds. In addition, as of February 28, 2007, a warranty reserve in the amount of $1.6 million has been established to offset any future warranty claims.

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

	Operating Leases	Long-Term Debt	Interest on Long Term Debt
		(In thousands)	
2008	$ 1,537	$	$ 2,148
2009	1,131		2,181
2010	1,301		2,181
2011	1,361		2,181
2012	1,287	35,200	513
Thereafter	3,208		
Total	$ 9,825	$ 35,200	$ 9,204

Table of Contents

AZZ incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Quarterly financial information, unaudited (in thousands, except per share amounts)

	Quarter ended			
	May 31, 2006	**August 31, 2006**	**November 30, 2006**	**February 28, 2007**
2007				
Net sales	$ 52,453	$ 62,882	$ 65,361	$ 79,648
Gross profit	13,745	17,031	17,115	19,042
Net income	4,126	5,279	5,245	6,954
Basic earnings per common share	.36	.46	.45	.60
Diluted earnings per common share	.35	.45	.44	.58

	Quarter ended			
	May 31, 2005	**August 31, 2005**	**November 30, 2005**	**February 28, 2006**
2006				
Net sales	$ 44,739	$ 47,847	$ 44,323	$ 50,275
Gross profit	9,006	8,153	8,847	11,323
Net income	2,132	1,368	1,734	2,593
Basic earnings per common share	.19	.12	.15	.23
Diluted earnings per common share	.19	.12	.15	.23

14. Acquisitions

On October 31, 2006, AZZ incorporated (the Company), Arbor-Crowley, Inc., a wholly-owned subsidiary of the Company (Subsidiary), Witt Industries, Inc. (Witt) and Marcy R. Wydman (Wydman), as the sole shareholder of Witt, entered into an Asset Purchase Agreement (the Purchase Agreement) pursuant to which Subsidiary purchased all, or substantially all of the assets of Witt relating to Witt s galvanizing division (the Asset Purchase). The purchase price of the transaction was $13,400,000 in cash. The Company used its existing bank line of credit to finance this transaction. The purchased assets included three galvanizing plants, one plant located in Ohio and two plants located in Indiana. Witt s operating results are included in the financial statements from November 1, 2006. The estimated fair values of the assets acquired and liabilities assumed include $6.6 million of currents assets, consisting of inventory, and accounts receivable, $6.1 million of property, plant and equipment, $.9 million in identified intangible and other assets, and assumed liabilities of $.2 million. The identified intangible assets consist of customer related intangibles with a weighted average useful life of 8.7 years. Pro forma results of operations assuming the acquisition occurred on March 1, 2006 are not presented as they are not significantly different than the Company s historical results of operations.

In connection with the real property located in Muncie, Indiana, the Company, Subsidiary, Witt Galvanizing-Muncie, Inc. and Wydman entered into an Environmental Remediation and Assumption of Liability Agreement pursuant to which Wydman assumed certain potential environmental liabilities with respect to the Site and agreed to perform voluntary remediation of pre-existing pollution conditions at the Site.

Table of Contents

Schedule II

AZZ incorporated

Valuation and Qualifying Accounts and Reserves

(in thousands)

	Year Ended February 28, 2007	February 28, 2006 *(a)*	February 29, 2005 *(a)*
Allowance for Doubtful Accounts			
Balance at Beginning of year	$ 400	$ 1,362	$ 1,005
Additions charged or credited to income	451	(596)	495
Balances written off, net of recoveries	(181)	(366)	(138)
Balance at end of year	$ 670	$ 400	$ 1,362

(a) In fiscal 2005 and 2006, a reserve in the amount of $888,000 was created for a preferential payment claim from the Enron Bankruptcy. This amount was included in the total reserve of $1,362,000 at the end of fiscal 2006. In fiscal 2007, the claim was settled for $300,000 and the reserve was adjusted.

Table of Contents

EXHIBIT INDEX

Exhibit No.	
23.1	Consent of BDO Seidman. Filed Herewith.
23.2	Consent of Ernst & Young LLP. Filed Herewith.
31.1	Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 9, 2007. Filed Herewith.
31.2	Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 9, 2007. 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 July 9, 2007. 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 July 9, 2007. Filed Herewith.