AZZ INC
Form 10-Q
January 07, 2011

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

FORM 10-Q

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

For the quarterly period ended November 30, 2010

OR

o 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)

TEXAS	75-0948250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Museum Place, Suite 500 3100 West 7th Street 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)

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 T 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	Non-accelerated	Smaller Reporting
£	filer T	filer £	Company £

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

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, 2010:
Common Stock, $1.00 par value per share	12,498,054

AZZ incorporated

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	11/30/10	02/28/10
Assets	(Unaudited)	
Current Assets:		
Cash and Cash Equivalents	$ 6,652,973	$ 110,607,029
Accounts Receivable (Net of Allowance for Doubtful Accounts of $669,000 at November 30, 2010 and $720,000 at February 28, 2010)	52,478,486	39,431,918
Inventories:		
Raw Material	38,528,532	23,356,416
Work-In-Process	13,779,766	11,541,710
Finished Goods	3,623,155	5,226,455
Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts	14,504,599	10,782,424
Deferred Income Taxes	7,656,522	5,225,379
Income Tax Receivable	6,949,465	-
Insurance Receivable	6,600,000	-
Prepaid Expenses and Other	2,344,572	1,281,605
Total Current Assets	153,118,070	207,452,936
Property, Plant and Equipment, Net	124,940,924	87,364,502
Goodwill	112,592,460	69,420,256
Intangibles and Other Assets	43,383,354	17,723,464
	$ 434,034,808	$ 381,961,158
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$ 21,759,848	$ 12,116,783
Income Tax Payable	918,396	246,602
Accrued Salaries and Wages	6,361,986	4,978,522
Other Accrued Liabilities	17,128,807	17,609,729
Customer Advance Payment	7,822,634	7,454,650
Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts	495,007	1,221,902
Total Current Liabilities	54,486,678	43,628,188
Long-Term Debt Due After One Year	100,000,000	100,000,000
Deferred Income Taxes	30,654,773	10,466,932
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	23,820,030	20,783,366
Accumulated Other Comprehensive Income (Loss)	222,986	(672,858)
Retained Earnings	212,789,947	196,394,134
	(548,766)	(1,247,764)

Less Common Stock Held In Treasury, At Cost (111,106 Shares at November 30, 2010 and 252,638 Shares at February 28, 2010)		
Total Shareholders' Equity	249,893,357	227,866,038
	$ 434,034,808	$ 381,961,158

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	11/30/10	11/30/09	11/30/10	11/30/09
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Net Sales	$102,897,545	$ 81,518,198	$279,963,160	$ 272,167,391
Costs And Expenses				
Cost Of Sales	75,252,872	55,804,749	199,702,328	186,151,862
Selling, General and Administrative	10,918,206	10,238,451	35,422,991	33,751,428
Interest Expense	1,787,161	1,728,621	5,246,405	5,146,184
Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds	6,505	(47,688)	(50,613)	(118,171)
Other Income	(256,803)	(82,108)	(1,017,215)	(463,439)
	87,707,941	67,642,025	239,303,896	224,467,864
Income Before Income Taxes	15,189,604	13,876,173	40,659,264	47,699,527
Income Tax Expense	5,472,062	5,133,442	14,921,478	17,937,736
Net Income	$9,717,542	$ 8,742,731	$25,737,786	$ 29,761,791
Earnings Per Common Share				
Basic Earnings Per Share	$0.78	$ 0.71	$2.07	$ 2.43
Diluted Earnings Per Share	$0.77	$ 0.70	$2.04	$ 2.39

See Accompanying Notes to Condensed Consolidated Financial Statements

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED	
	11/30/10	11/30/09
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net Income	$25,737,786	$29,761,791
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Provision for Doubtful Accounts	102,146	65,932
Amortization and Depreciation	16,163,780	12,985,567
Deferred Income Tax Expense	(574,701)	(464,849)
Net Gain on Sale or Insurance Settlement of Property, Plant & Equipment	(50,613)	(118,171)
Amortization of Deferred Borrowing Costs	245,712	229,046
Share-Based Compensation Expense	2,801,435	2,060,335
Effects of Changes In Assets & Liabilities:		
Accounts Receivable	(5,241,586)	16,809,276
Inventories	(7,764,627)	9,809,027
Prepaid Expenses And Other	(646,750)	(923,974)
Other Assets	(113,604)	21,064
Net Change In Billings Related to Costs and Estimated Earnings on Uncompleted Contracts	(4,449,069)	4,133,108
Accounts Payable	2,749,274	(2,766,720)
Other Accrued Liabilities and Income Taxes	(3,430,660)	(6,105,709)
Net Cash Provided By Operating Activities	25,528,523	65,495,723
Cash Flows From Investing Activities:		
Proceeds From Sale or Insurance Settlement of Property, Plant, and Equipment	195,617	410,445
Purchase of Property, Plant and Equipment	(10,986,924)	(10,226,133)
Acquisition of Subsidiaries, Net of Cash Acquired	(104,091,416)	(6,899,561)
Net Cash Used In Investing Activities	(114,882,723)	(16,715,249)
Cash Flows From Financing Activities:		
Proceeds From Exercise of Stock Options and Stock Appreciation Rights	379,955	466,117
Excess Tax Benefits From Stock Options and Stock Appreciation Rights	875,224	1,677,418
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	(9,341,973)	-
Net Cash Provided By (Used In) Financing Activities	(14,552,378)	2,143,535

Effect Of Exchange Rate Changes on Cash	(47,478)	(48,226)
Net (Decrease) Increase In Cash & Cash Equivalents	(103,954,056)	50,875,783
Cash & Cash Equivalents at Beginning of Period	110,607,029	47,557,711
Cash & Cash Equivalents at End of Period	$6,652,973	$98,433,494
Supplemental Disclosures		
Cash Paid For Interest	$6,560,693	$6,477,139
Cash Paid For Income Taxes	$14,098,568	$15,952,943

See Accompanying Notes to Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock		Capital in Excess of	Retained	Accumulated Other Comprehensive Income	Treasury	
	Shares	Amount	Par Value	Earnings	(Loss)	Stock	Total
Balance at February 28, 2010	12,609,160	$ 12,609,160	$ 20,783,366	$ 196,394,134	$ (672,858)	$ (1,247,764)	$ 227,866,038
Exercise of Stock Options			146,241			233,714	379,955
Stock Compensation			2,766,863			34,572	2,801,435
Stock Issued for SARs			(1,272,757)			303,914	(968,843)
Employee Stock Purchase Plan			521,093			126,798	647,891
Federal Income Tax Deducted on Stock Options and SARs			875,224				875,224
Cash Dividend Paid				(9,341,973)			(9,341,973)
Comprehensive Income:							
Net Income				25,737,786			25,737,786
Foreign Currency Translation					356,624		356,624
Interest Rate Swap, net of tax					539,220		539,220
Comprehensive Income							26,633,630
Balance at November 30, 2010	12,609,160	$ 12,609,160	$ 23,820,030	$ 212,789,947	$ 222,986	$ (548,766)	$ 248,893,357

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, 2010, 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 mea AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year that ended February 28, 2010 is referred to as fiscal 2010.

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, 2010, and the results of its operations for the three-month and nine-month periods ended November 30, 2010 and 2009, respectively, and cash flows for the nine-month periods ended November 30, 2010 and 2009.

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,	
	2010	2009	2010	2009
	(Unaudited)			
	(In thousands except share and per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	$ 9,718	$ 8,743	$ 25,738	$ 29,762
Denominator:				
Denominator for basic earnings per common share –weighted average shares	12,495,182	12,333,472	12,448,949	12,258,716
Effect of dilutive securities:				
Employee and Director stock awards	126,921	187,762	141,117	210,026
Denominator for diluted earnings per common share	12,622,103	12,521,234	12,590,066	12,468,742
Earnings per share basic and diluted:				
Basic earnings per common share	$ .78	$ .71	$ 2.07	$ 2.43
Diluted earnings per common share	$ .77	$ .70	$ 2.04	$ 2.39

3. Stock-based Compensation.

During fiscal 2006, the Company adopted the AZZ incorporated 2005 Long-Term Incentive Plan (as amended, the “2005 Plan”) and amended the Plan in fiscal 2009. The purpose of the 2005 Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees and directors restricted stock, performance awards, stock appreciation rights (“SARs” or “Stock Appreciation Rights”) and options to purchase common stock of the Company. The 2005 Plan was amended on July 8, 2008. A maximum number of 1,000,000 shares may be issued under the 2005 Plan. Unless otherwise indicated herein in the description of specific grants or awards, awards under the 2005 Plan provide for a three-year cliff vesting schedule but may vest early if accelerated vesting provisions in the Plan apply and the awards qualify for equity treatment.

On June 1, 2006, we awarded 234,160 SARs under the 2005 Plan with an exercise price of $11.55. As of November 30, 2010, all of these SARs were vested and exercised. These awards qualified for equity treatment. 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 expenses related to the June 1, 2006 grants of $0 and $19,000 were recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had no unrecognized cost related to the June 1, 2006 SAR grants.

On March 1, 2007, we awarded 147,740 Stock Appreciation Rights under the 2005 Plan with an exercise price of $19.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met. They also qualify for equity treatment. The weighted average fair value of SARs granted on March 1, 2007, was determined to be $5.54 based on the following assumptions: risk-free interest rate of 5%, dividend yield of 0.0%, expected volatility of 29.52% and expected life of 3 years. As of November 30, 2010, no SARs were outstanding due to the exercise and vesting of 129,780 SARs and the forfeiture of 17,960 SARs. Compensation expense related to the March 1, 2007 grants of $0 and $78,000 were recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had no unrecognized costs related to the March 1, 2007 SAR grants.

On March 1, 2008, we awarded 131,690 Stock Appreciation Rights under the 2005 Plan with an exercise price of $35.88. These Stock Appreciation Rights have a three year cliff vesting schedule, but may vest early if accelerated vesting provisions in the 2005 Plan are met. They also qualify for equity treatment. 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, 2010, 123,060 of these SARs were outstanding after giving effect to the forfeiture of 6,740 SARs and the exercise of 1,890 SARs that were invested when an employee retired. Compensation expense related to the March 1, 2008 grants of $176,000 and $176,000 were recognized during the nine month periods ended November 30, 2010 and 2009 respectively. As of November 30, 2010, we had unrecognized cost of $60,000 related to the March 1, 2009 SAR grants.

On March 1, 2009, we issued 31,666 shares of Restricted Stock to our key employees under the 2005 Plan. The Restricted Stock awards have a three year cliff vesting schedule, but may vest early under accelerated vesting provisions in the 2005 Plan. The market value of a share of our stock was $18.12 on the date of grant. Compensation expense in the amount of $56,000 and $400,000 was recognized during the nine month periods ended November 30, 2010 and November 30, 2009, respectively. The amount of unrecognized cost at November 30, 2010 was $94,000.

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, 2010, 123,542 SARs were outstanding after giving effect to the forfeiture of 1,661 SARs and the exercise of 38,030 SARs. Compensation expense in the amount of $131,000 and $917,000 was recognized during the nine month periods ended November 30, 2010 and November 30, 2009, respectively. As of November 30, 2010, we had unrecognized cost of $218,000 related to the March 1, 2009 SAR grants.

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. Compensation expense in the amount of $1,299,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized cost of $552,000 related to the March 1, 2010 SAR grants.

On March 1, 2010, we issued 22,906 shares of Restricted Stock 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. Compensation expense in the amount of $511,000 was recognized during the nine month period ended November 30, 2010. The amount of unrecognized cost at November 30, 2010 was $214,000.

On June 1, 2010, we issued 1,887 shares of Restricted Stock 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. Compensation expense in the amount of $13,000 was recognized during the nine month period ended November 30, 2010. The amount of unrecognized cost at November 30, 2010 was $63,000.

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. Compensation expense in the amount of $29,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized cost of

$144,000 related to the June 1, 2010 SARs grant.

On September 1, 2008, we implemented the AZZ incorporated Employee Stock Purchase Plan (the “Plan”). The purpose of the Plan is to allow employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under the Plan have a duration of 24 months. On the first day of an offering period (the “Enrollment Date”), the participant is granted the option to purchase shares on each exercise date during the offering period up to 10% of the participant’s compensation at the lower of 85% of the fair market value of a share of stock on the Enrollment Date or 85% of the fair market value of a share of stock on the exercise date. The participant’s right to purchase stock in the Plan is restricted to no more than $25,000 per calendar year and to no more than 5,000 shares per 24 month offering period. Participants may terminate their interest in a given offering, or a given exercise period, by withdrawing all, but not less than all, of the accumulated payroll deductions of the account at any time prior to the end of the offering period.

We estimated the shares to be issued 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 expenses in the amount of $133,000 and $199,000 were recognized during the nine month periods ended November 30, 2010, and 2009, respectively. As of November 30, 2010, we had no unrecognized costs related to 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 expenses in the amount of $39,000 and $39,000 were recognized during the nine month period ended November 30, 2010, and 2009, respectively. In accordance with the Plan, we issued 5,943, 4,175 and 4,139 shares on September 1, 2009, March 1, 2010 and September 1, 2010, respectively. As of November 30, 2010, we had unrecognized costs of $13,000 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 in the amount of $20,000 and $7,000 was recognized during the nine month periods ended November 30, 2010 and 2009, respectively. As of November 30, 2010, we had unrecognized costs of $20,000 related to the third issuance under the Plan. In accordance with the Plan, 991 and 793 shares were issued on March 1, 2010 and September 1, 2010, 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 in the amount of $15,000 was recognized during the nine month period ended November 30, 2010. In accordance with the Plan we issued 747 shares on September 1, 2010, to the enrolled employees. As of November 30, 2010, we had unrecognized costs of $26,000 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 in the amount of $93,000 was recognized during the nine month period ended November 30, 2010. As of November 30, 2010, we had unrecognized costs of $649,000 related to the fifth issuance

under the Plan.

The Company granted its directors 7,000 shares of the Company's common stock during each of fiscal 2011 and 2010. Stock compensation expense was recognized with regard to these grants in the amount of $286,000 and $226,000 for the nine month periods ended November 30, 2010 and 2009, respectively.

4. Segments.

We have two operating segments as described in our Annual Report on Form 10-K for the year ended February 28, 2010. Information regarding operations and assets by segment is as follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2010	2009	2010	2009
	(Unaudited)			
	($ In thousands)			
Net Sales:				
Electrical and Industrial Products	$ 41,051	$ 43,622	$ 118,980	$ 154,576
Galvanizing Services	61,847	37,896	160,983	117,591
	102,898	81,518	279,963	272,167
Operating Income (a):				
Electrical and Industrial Products	6,185	9,109	20,333	31,715
Galvanizing Services	15,421	10,537	42,135	35,634
	21,606	19,646	62,468	67,349
General Corporate Expense (b)	4,630	4,033	16,597	14,535
Interest Expense	1,787	1,728	5,246	5,146
Other (Income) Expense, Net (c)	(1)	9	(34)	(32)
	6,416	5,770	21,809	19,649
Income Before Income Taxes	$ 15,190	$ 13,876	$ 40,659	$ 47,700
Total Assets:				
Electrical and Industrial Products	$ 126,376	$ 133,724	$ 126,376	$ 133,724
Galvanizing Services	273,180	139,255	273,180	139,255
Corporate	34,479	111,444	34,479	111,444
	$ 434,035	$ 384,423	$ 434,035	$ 384,423

(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 for our Electrical and Industrial Segment and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and makes adjustments accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following table shows changes in the warranty reserves since the end of fiscal 2008:

	Warranty Reserve (unaudited) (In thousands)
Balance at February 29, 2008	$ 1,732
Warranty costs incurred	(1,454)
Additions charged to income	1,737
Balance at February 28, 2009	$ 2,015
Warranty costs incurred	(2,130)
Additions charged to income	2,912
Balance at February 28, 2010	$ 2,797
Warranty costs incurred	(2,035)
Additions charged to income	1,288
Balance at November 30, 2010	$ 2,050

6. Acquisition

On June 14, 2010 AZZ completed the merger of NGA with our subsidiary, resulting in NGA becoming a subsidiary of AZZ. 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. As of November 30, 2010, we have expensed $1.8 million in acquisition costs related to the NGA acquisition.

The following pro forma information is based on the assumption the acquisition of NGA took place on March 1, 2009 for the income statement for the three month and nine month period ended November 30, 2010 and 2009.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2010	2009	2010	2009
	(In thousands, except for per share amounts)			
Net Sales	$102,898	$101,569	$298,876	$330,970
Net Income	$9,718	$11,857	$29,123	$39,861
Earnings Per Common Share				
Basic Earnings Per Share	$.78	$.96	$2.34	$3.25
	$.77	$.95	$2.32	$3.20

Diluted Earnings
Per Share

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Under the acquisition method of accounting, the total purchase price was allocated to NGA's net tangible and intangible assets based on their estimated fair values as of June 14, 2010, the date on which AZZ acquired control of NGA. The excess of the purchase price over the net tangible and intangible assets will be recorded as goodwill. AZZ has made an allocation of the estimated purchase price as follows (in thousands):

Purchase Price Allocation:

Current Assets	$58,229
Property and Equipment	40,552
Intangible Assets	28,000
Goodwill	42,876
Other Assets	3,089
Total Assets Required	172,746
Current Liabilities	(11,629)
Long Term Liabilities	(28,673)
Net Assets Acquired	$132,444

7. Other Comprehensive Income

We expect to incur fixed rate, long-term indebtedness of $125 million in January 2011 through the anticipated 2011 Note Offering (as defined below). Please see the discussion contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—LIQUIDITY AND CAPITAL RESOURCES" below for a more detailed description of the 2011 Note Offering. In anticipation of the 2011 Note Offering, we entered into a treasury lock hedging transaction with Bank of America Merrill Lynch ("BOAML") in order to eliminate the variability of cash flows on the forecasted fixed rate coupon of the debt during the pre-issuance period. The hedging transaction settled during the Company's third fiscal quarter and the Company received a payment from BOAML in the amount of $834,416 resulting therefrom. The notional value of the hedge was for $75 million and qualified for hedge accounting as a cash flow hedge. The gain on settlement has been recorded as a component of Accumulated Other Comprehensive Income and will be amortized to interest expense over the life of the loan of 10 years.

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,” “esti “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, 2010 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, 2010, as well as with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

We have two operating segments as described in our Annual Report on Form 10-K for the year ended February 28, 2010. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue by segment and segment operating income to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this report.

Orders and Backlog

Our backlog was $101.7 million as of November 30, 2010, a decrease of $8.2 million or 7%, as compared to $109.9 million at February 28, 2010. Our entire backlog relates to our Electrical and Industrial Products Segment. Our book-to-ship ratio was .95 to 1 for the third quarter ended November 30, 2010, as compared to .91 to 1 for the same period in the prior year. Incoming orders for the three and nine month periods ended November 30, 2010 increased 33% and 19%, respectively, over the same periods a year ago. The markets for our Electrical and Industrial Products have not shown the level of stability or the recovery that we had anticipated. Based upon our quotation activity and conversations with our customers, we do not believe that our backlog will show appreciable increases in the current fiscal year. While it is difficult to forecast timing of order releases in this market, we anticipate that it will be the first half of our fiscal 2012 before we start seeing a rebuilding of our backlog. 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, 2010, as compared to the same period in the prior fiscal year.

Backlog Table
(In thousands)(Unaudited)

	Period Ended			Period Ended		
Backlog	2/28/10	$	109,918	2/28/09	$	174,831
Bookings			78,603			70,719
Shipments			77,475			95,492
Backlog	5/31/10	$	111,046	5/31/09	$	150,058
Book to Ship Ratio			1.01			.74
Bookings			95,033			84,458
Shipments			99,591			95,157
Backlog	8/31/10	$	106,488	8/31/09	$	139,359
Book to Ship Ratio			.95			.89
Bookings			98,096			73,993
Shipments			102,897			81,518
Backlog	11/30/10	$	101,687	11/30/09	$	131,834
Book to Ship Ratio			.95			.91

Segment Revenues

The following table reflects the breakdown of revenue by segment:

	Three Months Ended		Nine Months Ended	
	11/30/2010	11/30/2009	11/30/2010	11/30/2009
	(In thousands)(Unaudited)			
Revenue:				
Electrical and Industrial Products	$ 41,051	$ 43,622	$ 118,980	$ 154,576
Galvanizing Services	61,847	37,896	160,983	117,591
Total Revenue	$ 102,898	$ 81,518	$ 279,963	$ 272,167

For the three and nine-month periods ended November 30, 2010, consolidated revenues were $102.9 million and $280.0 million, a 26% and 3% increase, respectively, as compared to the same periods in fiscal 2010. The Electrical and Industrial Products Segment contributed 40% and 42% of the Company's revenues, respectively, and the Galvanizing Services Segment accounted for the remaining 60% and 58% of the combined revenues, respectively, for the three and nine-month periods ended November 30, 2010.

Revenues for the Electrical and Industrial Products Segment decreased $2.6 million, or 6%, for the three-month period ended November 30, 2010, and decreased $35.6 million, or 23%, for the nine-month period ended November 30, 2010, as compared to the same periods in fiscal 2010. The decreased revenues for the three month and nine month periods ended November 30, 2010, resulted from lower demand from the petrochemical and electrical transmission and distribution markets as compared to the same periods last year. We do not anticipate an increase in the electrical transmission and distribution market until overall electrical demand increases and utilities are able to get regulatory rate increases.

Revenues in the Galvanizing Services Segment increased $24.0 million, or 63%, for the three-month period ended November 30, 2010, as compared to the same period in fiscal 2010 and increased $43.4 million, or 37%, for the nine-month period ended November 30, 2010, as compared to the same periods in fiscal 2010. The volume of steel processed increased 58% and 36% for the three and nine months periods ended November 30, 2010, respectively, as compared to the same periods in the prior year. The average selling price for the three and nine month periods ended November 30, 2010, increased 2% and decreased 1% respectively, as compared to the same periods in the prior year. The revenues from the acquisition of NGA accounted for 76% and 77% of the increase in revenues for the three and nine month periods ended November 30, 2010, respectively. Revenues from the NGA acquisition were $–––18.3 million and $33.3 million for the three and nine month periods ended November 30, 2010. Historically, revenues for this segment have closely followed 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	
	11/30/2010	11/30/2009	11/30/2010	11/30/2009
	(In thousands)(Unaudited)			
Segment Operating Income:				

Electrical and Industrial Products	$ 6,185	$ 9,109	$ 20,333	$ 31,715
Galvanizing Services	15,421	10,537	42,135	35,634
Total Segment Operating Income	$ 21,606	$ 19,646	$ 62,468	$ 67,349

Our total segment operating income increased 10% for the quarter ended November 30, 2010 to $21.6 million as compared to $19.6 million for the same period in fiscal 2010. For the nine-month period ended

November 30, 2010, our total segment operating income decreased 7% to $62.5 million, as compared to $67.3 million for the same period ended November 30, 2009.

Segment operating income in the Electrical and Industrial Products Segment decreased 32% and 36% for the three and nine-month periods ended November 30, 2010, to $6.2 million and $20.3 million, respectively, as compared to $9.1 million and $31.7 million, respectively, for the same periods in fiscal 2010. Operating margins were 15% and 17% for the three and nine-month periods ended November 30, 2010, as compared to 21% for both the comparable periods in fiscal 2010. Decreased operating margins for the three and nine months resulted from the loss of leverage and operational efficiencies due to reduced plant utilization combined with less favorable pricing due to more competitive market conditions for the compared periods.

In the Galvanizing Services Segment, operating income increased 46% and 18% for the three and nine-month periods ended November 30, 2010, to $15.4 million and $42.1 million, respectively, as compared to $10.5 million and $35.6 million, respectively, for the same periods in fiscal 2010. Operating profit from NGA was $4.5 million and $8.0 million for the three and nine month periods ended November 30, 2010. Operating margins were 25% and 26%, respectively, for the three and nine-month periods ended November 30, 2010, as compared to 28% and 30%, respectively, for the comparable periods in fiscal 2010. Lower operating margins were the result of higher zinc costs for the current 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, 2010, were $4.6 million compared to $4.0 million for the same period in fiscal 2010. For the nine-month period ended November 30, 2010, general corporate expenses were $16.6 million as compared to $14.5 million for the comparable period last year. The majority of the increase in general and corporate expenses was due to the $1.8 million of expensed acquisition cost during the nine month period ended November 30, 2010. As a percentage of sales, general corporate expenses were 4% and 6%, respectively, for the three and nine-month periods ended November 30, 2010, as compared to 5% for the same periods in fiscal 2010.

Interest

Net interest expense for the three and nine-month periods ended November 30, 2010 increased 3% and 2%, respectively, as compared to the same periods in fiscal 2010 to $1.8 million for the three months and $5.2 million for the nine months ended November 30, 2010. Increased interest expense for the compared periods was the result of an increase in short term borrowing against our revolving line of credit required to fund the acquisition of NGA. We repaid the amounts borrowed to fund this acquisition, which totaled $12.0 million, at the end of November 2010. We had outstanding long term debt of $100 million as of November 30, 2010 and November 30, 2009. Our long-term debt to equity ratio was .40 to 1 as of November 30, 2010, as compared to .45 to 1 at the same date in fiscal 2010.

Other (Income) Expense

For the three-month and nine-month periods ended November 30, 2010, 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 36% and 37% for the three and nine month periods ended November 30, 2010, respectively, and 37% and 38%, respectively, for the three and nine-month periods ended November 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities and bank borrowings. Our cash requirements are generally for operating activities, capital improvements, debt repayment, letters of credit, cash dividends and acquisitions. We believe that working capital, funds available under our Credit Agreement (as defined below), and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, cash dividends, payment of debt and possible future acquisitions for the next twelve month period.

Our operating activities generated cash flows of approximately $25.5 million for the nine-month period ended November 30, 2010, and $65.5 million during the same period in the prior fiscal year. Increased working capital requirement, primarily in our Galvanizing Services Segment, for the nine month period ended November 30, 2010, accounted for the decrease in cash flow from operations as compared to the same period in the prior year. Cash flow from operations for the nine months ended November 30, 2010 included net income in the amount of $25.7 million, depreciation and amortization in the amount of $16.2 million, and other adjustments to reconcile net income to net cash in the amount of a $2.5 million. Included in other adjustments were provisions for bad debt, deferred income taxes, gain or loss on the sale of assets and non-cash adjustments. Positive cash flow was recognized due to increased accounts payable in the amount of $2.7 million. These positive cash flow items were offset by increased accounts receivable, inventories, prepaids and revenue in excess of billings of $5.2 million, $7.8 million, $.6 million and $4.4 million, respectively and a decrease in accrued liability of $3.4 million. The significant decrease in accrued liabilities was due to the payment of the fiscal 2010 profit sharing payment to our employees in the amount of $6.1 million. Accounts receivable average days outstanding were 48 days and 53 days, respectively, as of November 30, 2010 and February 28, 2010.

Cash used in investing activities during the nine months ended November 30, 2010, was approximately $11.0 million related to capital improvements. The purchase of NGA was completed during the second quarter of fiscal 2011 for a purchase price of $132 million, net of cash acquired of $28 million, resulted in a net cash outlay of $104 million.

A cash dividend was declared and paid for the three month period ended November 30, 2010 in the amount of $3.1 million. For the nine month period ended November 30, 2010 cash dividends were declared and paid in the amount of $9.3 million.

Our working capital was $98.6 million at November 30, 2010, as compared to $156.2 million at November 30, 2009.

On April 29, 2010, we amended our current credit agreement with Bank of America, N.A. (“Bank of America”) (as amended, the “Credit Agreement”). The Credit Agreement provides for an $80 million unsecured revolving line of credit maturing on May 25, 2014,which we use to provide for working capital needs, capital improvements, future cash dividend payments, future acquisitions, and letter of credit needs. At November 30, 2010, we had no outstanding borrowing under the revolving credit facility. Also, we had letters of credit outstanding in the amount of $11.7 million, which left approximately $68.3 million of additional credit available under the revolving credit facility.

The Credit Agreement provides for various financial covenants, including maintaining a) a Minimum Consolidated Net Worth equal to at least the sum of $182.3 million as of April 29, 2010 plus 50% of future net income after May 1, 2010; b) a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; and c) a Fixed Charge Coverage Ratio of at least 1.75:1.0. All capitalized terms are as defined in the Credit Agreement. The Credit Agreement maintains a maximum expenditure for fixed assets of $30 million per fiscal year. We were in compliance at November 30, 2010 with all of our debt covenants under the Credit Agreement.

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The Credit Agreement provides for an applicable margin ranging from 1% to 1.75% over the Eurodollar Rate and Commitment Fees ranging from .20% to .30% depending on our Leverage Ratio (as defined in the Credit Agreement).

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

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

The Notes provide for various financial covenants including maintaining a) a Minimum Consolidated Net Worth equal to at least the sum of $116.9 million plus 50% of future net income; b) a Maximum Ratio of Consolidated Indebtedness to Consolidated EBITDA not to exceed 3.25:1.00; c) a Fixed Charge Coverage Ratio of at least 2.0:1.0; and d) maintaining a Priority Indebtedness not to exceed 10% of Consolidated Net Worth. All capitalized terms are as defined in the Note Purchase Agreement. We were in compliance at November 30, 2010 with all of our debt covenants.

Our current ratio (current assets/current liabilities) was 2.81 to 1 at November 30, 2010, as compared to 4.06 to 1 at November 30, 2009. The long-term debt to shareholders’ equity ratio was .40 to 1 at November 30, 2010, as compared to .45 to 1 at November 30, 2009.

The Company anticipates entering into an additional Note Purchase Agreement in January of 2011 (the “2011 Agreement”), pursuant to which the Company would issue $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 could 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. The 2011 Notes will not be registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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

OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS

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

operations, liquidity, capital expenditures or capital resources of the Company.

CONTRACTUAL COMMITMENTS

Leases

We lease various facilities under non-cancelable operating leases with an initial term in excess of one year. The future minimum payments required under these operating leases as of November 30, 2010, are summarized in the following table.

Summary of Commitments

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

Fiscal Year	Operating Leases	Long-Term Debt	Interest on Long-Term Debt	Total
	(In thousands) (Unaudited)			
2011	$ 1,030	$ -	$ -	$ 1,030
2012	4,171	-	6,240	10,411
2013	3,514	14,286	5,794	23,594
2014	3,027	14,286	4,903	22,216
2015	2,906	14,286	4,011	21,203
Thereafter	11,810	57,142	7,132	76,084
Total	$ 26,458	$ 100,000	$ 28,080	$ 154,538

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

In the Galvanizing Services Segment, we utilize contracts with our zinc suppliers that include protective caps to guard against rising zinc prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. There are no contracted volume purchase commitments associated with the natural gas or zinc agreements. Management believes these agreements ensure adequate supplies and partially offset exposure to commodity price swings.

Other

At November 30, 2010, we had outstanding letters of credit in the amount of $11.7 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 the customer might incur. In addition, as of November 30, 2010, a warranty reserve in the amount of $2.1 million has been established to offset any future warranty claims.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements requires us to make estimates that affect the reported value of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and various other factors that we believe are reasonable under the circumstances and form the basis for our conclusions. We continually evaluate the information used to make these estimates as business and economic conditions change. Accounting policies and estimates considered most critical are allowances for doubtful accounts, accruals for contingent liabilities, revenue recognition, impairment of long-lived assets, identifiable intangible assets and goodwill, accounting for income taxes, and stock options and stock appreciation rights. Actual results may differ from these estimates under different assumptions or conditions. The development and selection of the critical accounting policies and the related disclosures below have been reviewed with the Audit Committee of the Board of Directors. More information regarding significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K.

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

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

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

Accounting for Income Taxes - 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. We also reduce deferred tax assets 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. In addition, we analyze our uncertain tax positions for derecognition, classification and required disclosures on an interim basis.

Stock Options and Stock Appreciation Rights - Our employees and directors are periodically granted stock options or Stock Appreciation Rights by the Board of Directors. We measure the compensation cost of all employee stock-based compensation awards based on the grant-date fair value of those awards and that cost is recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award).

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

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

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

These variables are developed using a combination of our internal data with respect to stock price volatility and exercise behavior of option holders and information from outside sources. The development of each of these variables requires a significant amount of judgment. Changes in the values of the above variables would result in different option valuations and, therefore, different amounts of compensation cost.

The restricted stock units are valued at the market price on the close of business for each grant date. Compensation expense is recorded ratably over the vesting period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

We do not believe that a hypothetical change of 10% of the interest rate currently in effect or a change of 10% of commodity prices would have a significantly adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. However, there can be no assurance that either we can pass along all increases to our customers or that interest rates or commodity prices will not change in excess of the 10% hypothetical amount. If either event occurs, it could have an adverse effect on our results of operations, financial position, and cash flows.

We expect to incur fixed rate, long-term indebtedness of $125 million in January 2011 through the anticipated 2011 Note Offering. Please see the discussion contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—LIQUIDITY AND CAPITAL RESOURCES" above for a more detailed description of the 2011 Note Offering. In anticipation of the 2011 Note Offering, we entered into a treasury lock hedging transaction with Bank of America Merrill Lynch ("BOAML") in order to eliminate the variability of cash flows on the forecasted fixed rate coupon of the debt during the pre-issuance period. The hedging transaction settled during the Company's third fiscal quarter and the Company received a payment from BOAML in the amount of $834,416 resulting therefrom. The notional value of the hedge was for $75 million and qualified for hedge accounting as a cash flow hedge. The gain on settlement has been recorded as a component of Accumulated Other Comprehensive Income and will be amortized to interest expense over the life of the loan of 10 years.

Item 4. Controls and Procedures.

We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 under the Securities and 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. Legal Proceedings. - 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, 2010.

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.

SIGNATURES

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

AZZ incorporated
(Registrant)

Date: 01/07/11

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

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).

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(16)	Fifth Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated April 29, 2010 (incorporated by reference to Exhibit 10(1) of the Form 8-K filed by the registrant on April 30, 2010).
31.1	Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 7, 2011. Filed Herewith.
31.2	Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 7, 2011. 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 7, 2011. 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 7, 2011. Filed Herewith.