AZZ INC
Form 10-Q
January 09, 2013
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended November 30, 2012

OR

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

Commission file number 1-12777

AZZ incorporated
(Exact name of registrant as specified in its charter)

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

One Museum Place, Suite 500 3100 West Seventh 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 ý No ¨

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

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

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

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, 2012:
Common Stock, $1.00 par value per share	25,376,967

Table of Contents

AZZ incorporated
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	11/30/2012 (Unaudited)	2/29/2012
Assets		
Current Assets:		
Cash and Cash Equivalents	$49,505,820	$143,302,666
Accounts Receivable (Net of Allowance for Doubtful Accounts of $1,200,000 at November 30, 2012 and $898,000 at February 29, 2012)	94,398,244	74,647,303
Inventories:		
Raw Material	45,269,143	44,008,243
Work-In-Process	35,776,081	13,860,151
Finished Goods	3,096,738	2,412,736
Costs and Estimated Earnings In Excess of Billings On Uncompleted Contracts	12,256,456	14,038,161
Deferred Income Taxes	7,048,783	7,654,781
Prepaid Expenses and Other	4,780,366	2,811,858
Total Current Assets	252,131,631	302,735,899
Property, Plant and Equipment, Net	152,005,729	135,826,703
Goodwill	166,607,181	121,383,863
Intangibles and Other Assets, Net	103,719,991	46,828,100
	$674,464,532	$606,774,565
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	$30,576,637	$24,401,194
Income Tax Payable	377,029	998,496
Accrued Salaries and Wages	8,912,650	7,988,594
Other Accrued Liabilities	21,856,992	18,049,283
Customer Advance Payments	32,245,825	11,267,525
Long Term Debt Due Within One Year	14,285,714	14,285,714
Billings In Excess of Costs and Estimated Earnings On Uncompleted Contracts	1,237,978	987,771
Total Current Liabilities	109,492,825	77,978,577
Long-Term Accrued Liabilities Due After One Year	8,748,481	—
Long-Term Debt Due After One Year	196,428,571	210,714,286
Deferred Income Taxes	32,426,015	30,472,937
Shareholders' Equity:		
Common Stock, $1 Par Value, Shares Authorized 50,000,000 (25,376,967 Shares at November 30, 2012 and 25,218,320 Shares at February 29, 2012)	25,376,967	25,218,320
Capital In Excess of Par Value	17,295,689	14,200,811
Retained Earnings	284,412,072	247,059,938
Accumulated Other Comprehensive Income	283,912	1,303,974
Less Common Stock Held In Treasury, At Cost (0 Shares at November 30, 2012 and 53,090 Shares at February 29, 2012)	—	(174,278)

Total Shareholders’ Equity	327,368,640	287,608,765
	$674,464,532	$606,774,565

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	11/30/2012	11/30/2011	11/30/2012	11/30/2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Sales	$149,674,616	$116,492,703	$430,202,771	$345,486,904
Costs And Expenses				
Cost of Sales	104,671,793	85,685,729	304,022,422	253,230,966
Selling, General and Administrative	17,894,549	11,320,064	49,019,008	36,109,841
Interest Expense	3,234,340	3,518,978	9,802,412	10,453,156
Net Loss (Gain) On Sale of Property, Plant and Equipment, and Insurance Proceeds	157,065	(7,101)	(5,794,623)	163,777
Other Expense (Income) - net	(453,853)	(192,569)	(700,074)	(1,224,927)
	125,503,894	100,325,101	356,349,145	298,732,813
Income Before Income Taxes	24,170,722	16,167,602	73,853,626	46,754,091
Income Tax Expense	8,807,042	6,146,684	26,631,069	17,661,951
Net Income	$15,363,680	$10,020,918	$47,222,557	29,092,140
Earnings Per Common Share				
Basic Earnings Per Share	$0.61	$0.40	$1.87	$1.16
Diluted Earnings Per Share	$0.60	$0.39	$1.85	$1.15

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	11/30/2012 (Unaudited)	11/30/2011 (Unaudited)	11/30/2012 (Unaudited)	11/30/2011 (Unaudited)
Net Income	$15,363,680	$10,020,918	$47,222,557	$29,092,140
Other Comprehensive Income (Loss):				
Foreign Currency Translation Adjustments				
Unrealized Translation Gains (Losses)	(1,009,165)	(492,051)	(979,384)	(549,443)
Interest Rate Swap, Net of Income Tax of $7,301, $7,301, $21,903 and $21,903, respectively.	(13,560)	(13,560)	(40,678)	(40,678)
Other Comprehensive Income (Loss)	(1,022,725)	(505,611)	(1,020,062)	(590,121)
Comprehensive Income	$14,340,955	$9,515,307	$46,202,495	$28,502,019

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	11/30/2012 (Unaudited)	11/30/2011 (Unaudited)
Cash Flows From Operating Activities:		
Net Income	$47,222,557	$29,092,140
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Provision For Doubtful Accounts	472,560	129,338
Amortization and Depreciation	21,072,577	16,869,925
Deferred Income Tax Expense	2,544,663	3,491,732
Net Loss (Gain) On Insurance Settlement or On Sale of Property, Plant & Equipment	(5,794,623)	163,777
Amortization of Deferred Borrowing Costs	213,152	241,006
Share Based Compensation Expense	2,816,827	2,696,083
Effects of Changes In Assets & Liabilities:		
Accounts Receivable	(8,318,577)	(3,693,162)
Inventories	(6,684,028)	(5,273,206)
Prepaid Expenses and Other	(1,058,221)	(1,153,152)
Other Assets	98,629	(3,808)
Net Change In Billings Related To Costs and Estimated Earnings On Uncompleted Contracts	2,031,912	2,176,709
Accounts Payable	2,459,582	2,604,300
Other Accrued Liabilities and Income Taxes Payable	9,509,647	(510,062)
Net Cash Provided By Operating Activities	66,586,657	46,831,620
Cash Flows From Investing Activities:		
Proceeds From Sale Or Insurance Settlement of Property, Plant, and Equipment	8,658,020	273,521
Purchase of Property, Plant and Equipment	(19,628,014)	(16,344,083)
Acquisition of Subsidiaries, Net of Cash Acquired	(122,632,180)	—
Net Cash Used In Investing Activities	(133,602,174)	(16,070,562)
Cash Flows From Financing Activities:		
Proceeds From Exercise of Stock Options	15,781	48
Excess Tax Benefits From Stock Options and Stock Appreciation Rights	1,283,240	199,427
Payments of Debt Financing Costs	(100,000)	—
Payments on Long Term Debt	(18,135,866)	
Payments of Dividends	(9,870,423)	(9,420,167)
Net Cash Used In Financing Activities	(26,807,268)	(9,220,692)
Effect of Exchange Rate Changes on Cash	25,939	168,350
Net Increase (Decrease) In Cash & Cash Equivalents	(93,796,846)	21,708,716
Cash & Cash Equivalents At Beginning of Period	143,302,666	138,389,837
Cash & Cash Equivalents At End of Period	$49,505,820	$160,098,553
Supplemental Disclosures		
Cash Paid For Interest	$9,567,067	$10,041,387
Cash Paid For Income Taxes	$23,870,187	$16,636,076

See Accompanying Notes to Condensed Consolidated Financial Statements.

7

Table of Contents
PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

	Common Stock						
	Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at February 29, 2012	25,218,320	$25,218,320	$14,200,811	$247,059,938	$1,303,974	$(174,278)	$287,608,765
Exercise of Stock Options	7,488	7,488	8,293				15,781
Stock Compensation	14,000	14,000	2,802,827				2,816,827
Restricted Stock Units			(516,916)			103,537	(413,379)
Stock Issued for SARs	89,662	89,662	(1,296,943)			15,362	(1,191,919)
Employee Stock Purchase Plan	47,497	47,497	814,377			55,379	917,253
Federal Income Tax Deducted on Stock Options and SARs			1,283,240				1,283,240
Cash Dividend Paid				(9,870,423)			(9,870,423)
Net Income				47,222,557			47,222,557
Foreign Currency Translation					(979,384)		(979,384)
Interest Rate Swap, Net of $21,903 Income Tax					(40,678)		(40,678)
Balance at November 30, 2012	25,376,967	$25,376,967	$17,295,689	$284,412,072	$283,912	$—	$327,368,640

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

AZZ incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC rules and regulations referred to above. Accordingly, these financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 29, 2012 included in the Company’s Annual Report on Form 10-K covering such period. For purposes of the report, “AZZ”, the “Company”, “we”, “our”, “us” or similar reference means AZZ incorporated and our consolidated subsidiaries.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year ended February 29, 2012 is referred to as fiscal 2012.

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of November 30, 2012, and the results of its operations and cash flows for the three-month and nine-month periods ended November 30, 2012 and 2011.

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 shares and earnings per share have been adjusted to reflect our two for one stock split, effected in the form of a share dividend approved by the Board of Directors on June 28, 2012, and paid on July 30, 2012. All share data has been retroactively restated.

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

	Three Months ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
	(Unaudited)			
	(In thousands except share and per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	$15,364	$10,021	$47,223	$29,092
Denominator:				
Denominator for basic earnings per common share–weighted average shares	25,362,450	25,163,452	25,301,207	25,120,596
Effect of dilutive securities:				
Employee and Director stock awards	240,412	210,832	236,050	219,064
Denominator for diluted earnings per common share	25,602,862	25,374,284	25,537,257	25,339,660
Earnings per share basic and diluted:				
Basic earnings per common share	$0.61	$0.40	$1.87	$1.16
Diluted earnings per common share	$0.60	$0.39	$1.85	$1.15

3. Stock-based Compensation.

The Company has two share-based compensation plans (the “Plan” or “Plans”). The purpose of both Plans is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees, directors and advisors various types of restricted stock unit awards, stock appreciation rights and options to purchase common stock of the Company. The maximum number of shares that may be issued under the Plans is 5,000,000 shares. As of November 30, 2012 the Company has approximately 1,983,454 shares available for future issuance under the Plans.

Table of Contents

Restricted Stock Unit Awards

Restricted stock unit awards are valued at the market price of our common stock on the grant date. These awards generally have a three year cliff vesting schedule but may vest early in accordance with the applicable Plan's accelerated vesting provisions.

The activity of our non-vested restricted stock unit awards for the nine month period ended November 30, 2012 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 29, 2012	122,450	$13.89
Granted	41,760	25.81
Vested	(58,028)	9.22
Forfeited	—	—
Non-Vested Balance as of November 30, 2012	106,182	$20.92

Stock Appreciation Rights and Option Awards

Stock appreciation rights and option awards are granted with an exercise price equal to the market value of our common stock on the date of grant. These awards generally have a contractual term of 7 years and vest ratably over a period of three years although some may vest immediately on issuance. These awards are valued using the Black-Scholes option pricing model.

A summary of the Company's stock appreciation rights and option awards activity for the nine months ended November 30, 2012 is as follows:

	Options/SAR's	Weighted Average Exercise Price
Outstanding as of February 29, 2012	573,000	$15.46
Granted	118,107	25.77
Exercised	(251,240)	13.84
Forfeited	—	—
Outstanding as of November 30, 2012	439,867	$19.12
Exercisable as of November 30, 2012	115,399	$13.14
Weighted average fair value of options and SARs granted during the period ended November 30, 2012		$8.81

The average remaining contractual term for those options and stock appreciation rights outstanding at November 30, 2012, is 4.96 years, with an aggregate intrinsic value of $16.8 million. The average remaining contractual terms for those options and stock appreciation rights that are exercisable as of November 30, 2012 is 3.89 years, with an aggregate intrinsic value of $4.4 million.

Employee Stock Purchase Plan

The Company also has an employee stock purchase plan which allows employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under this 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 at the lower of 85% of the market value of a share of our common stock on the enrollment date or the exercise date. The participant's right to purchase common stock under the plan is restricted to no more than $25,000 per calendar year and the participant may not purchase more than 5,000 shares during any offering period. Participants may terminate their interest in a given offering or a given exercise period by withdrawing all of their accumulated payroll deductions at any time prior to the end of the offering period. The fair value of the estimated number of shares to be issued under each offering is determined using the Black-Scholes option pricing model.

Directors' Grants

10

Table of Contents

During the second quarter of fiscal 2013, the Company granted each of its seven independent directors 2,000 shares of the Company's common stock. These common stock grants were valued at $32.51, which was the market price of our common stock on the grant date. As previously stated, all per share data has been adjusted to reflect the two for one stock split.

Share-based compensation expense and related income tax benefits related to all the plans listed above were as follows:

For the period ended November 30,	2012	2011
Compensation Expense	$2,816,827	$2,696,083
Income tax benefits	$985,889	$943,629

Unrecognized compensation cost related to stock appreciation rights, restricted stock units and the employee stock purchase plan at November 30, 2012 totals $1,453,409.

The Company's policy is to issue shares required under these Plans from the Company's authorized but unissued shares and treasury.

4. Segments.

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 29, 2012. Information regarding operations and assets by segment is as follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
	(Unaudited) (In thousands)			
Net Sales:				
Electrical and Industrial Products	$60,421	$43,849	$ 171,633	$ 136,518
Galvanizing Services	89,254	72,644	258,570	208,969
	149,675	116,493	430,203	345,487
Operating Income (a):				
Electrical and Industrial Products	8,952	5,719	25,087	18,214
Galvanizing Services	24,449	18,555	70,631	54,431
	33,401	24,274	95,718	72,645
General Corporate Expense (b)	5,721	4,662	17,795	15,778
Interest Expense	3,234	3,519	9,802	10,453
Other (Income) Expense, Net (c)	275	(75)	(5,733)	(340)
	9,230	8,106	21,864	25,891
Income Before Income Taxes	$24,171	$16,168	$ 73,854	$ 46,754
Total Assets:				
Electrical and Industrial Products	$260,191	$136,008	$ 260,191	$ 136,008
Galvanizing Services	359,694	283,141	359,694	283,141
Corporate	54,580	174,517	54,580	174,517
	$674,465	$593,666	$ 674,465	$ 593,666

(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 other (income) expenses not specifically identifiable to a segment.

5. Warranty Reserves.

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products and is classified within accrued liabilities on the consolidated balance sheet. Management

Table of Contents

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 2012:

	Warranty Reserve (unaudited) (in thousands)
Balance at February 29, 2012	$1,670
Warranty costs incurred	(754)
Additions charged to income	355
Balance at May 31, 2012	$1,271
Warranty costs incurred	(368)
Additions charged to income	615
Balance at August 31, 2012	$1,518
Warranty costs incurred	(470)
Additions charged to income	253
Balance at November 30, 2012	$1,301

6. Acquisitions

On June 1, 2012, we completed the acquisition of substantially all of the assets of Nuclear Logistics Incorporated ("NLI"), pursuant to the terms of the Asset Purchase Agreement dated April 27, 2012 between NLI, certain shareholders of NLI identified therein, the Company and an indirect wholly-owned subsidiary of the Company formed for the sole purpose of the acquisition (the "Purchase Agreement"). The purchase price paid in connection with the asset purchase was $77.0 million, net of cash acquired, along with the assumption of certain liabilities and the payoff of $3.8 million of notes payable at closing. In accordance with the Purchase Agreement, we may be obligated to make an additional payment of up to $20 million based on the future financial performance of the NLI business. The fair value of the earn out agreement was $8.7 million, and is reflected as a long-term liability. The fair value was calculated by determining a probability of potential payout which was then discounted by the cost of capital over the life of the agreement. AZZ serves the Power Generation, electrical transmission and distribution and Industrial markets. Our stated acquisition strategy has been to participate to a greater degree in each of these markets. Prior to the acquisition of NLI, the majority of AZZ's sales to the Power Generation market were new project driven associated with either the building of replacement for an existing power plant, or a new power generation plant to provide power to expanding economies in domestic and international markets. NLI serves both the project (new power plants) and the existing power plants, and after an extended valuation, we determined that NLI met our strategy. While NLI products and services are associated with the construction of new nuclear power plants, the primary NLI business model is driven by the continual updating and upgrading of the safety equipment of domestic and international nuclear power facilities. This acquisition therefore increased our opportunities for increased sales and operating income for new power projects as well as increased our participation in the revenue opportunities of existing facilities. The pre-acquisition customer base of AZZ is essentially the same customer base utilized by NLI.

The following consolidated pro forma information assumes that the acquisition of NLI took place on March 1, 2011 for the income statements for the three month and nine month periods ended November 30, 2012 and 2011.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
	(In thousands, except for per share amounts)			
Net Sales	$149,675	$126,181	$443,351	$381,287

Net Income	$15,364	$9,643	$47,369	$29,912
Earnings Per Common Share				
Basic Earnings Per Share	$0.61	$0.38	$1.87	$1.19
Diluted Earnings Per Share	$0.60	$0.38	$1.85	$1.18

Table of Contents

The total purchase price was allocated to NLI's net tangible and identifiable intangible assets based on their estimated fair values as of June 1, 2012, the date on which AZZ acquired control of NLI. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The goodwill will be deductible for income tax purposes. The earn out provision mentioned above has been classified below as a long term liability. AZZ has made an allocation of the estimated purchase price as follows (in thousands):
Purchase Price Allocation:

	($ in thousands)
Current Assets	$22,901
Property and Equipment	1,416
Intangible Assets	50,600
Goodwill	32,323
Other Assets	58
Total Assets Acquired	107,298
Current Liabilities	(17,866)
Long Term Liabilities	(12,388)
Net Assets Acquired	$77,044

On October 1, 2012, we completed the acquisition of substantially all of the assets of Galvcast Manufacturing Inc. ("Galvcast"), a Canadian galvanizing company with operations in Ontario, and certain real property owned by an affiliate of Galvcast. The purchase price paid in connection with the asset purchase was $45.6 million and the assumption of approximately $0.9 million in liabilities. This acquisition was made to compliment and expand our existing geographic Canadian footprint.

7. Subsequent Events

On January 2, 2013, we acquired G3 Galvanizing (G3), a galvanizing operation in Halifax, Nova Scotia. This acquisition is part of the stated AZZ strategy to continue the geographic expansion of its served markets that should provide a basis for continued growth of the Galvanizing Services Segment of AZZ.

Table of Contents

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

FORWARD LOOKING STATEMENTS

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the 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; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the continuing economic volatility in the U.S. and other markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. 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 29, 2012 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 29, 2012 and with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

We have two operating segments as defined in our Annual Report on Form 10-K for the year ended February 29, 2012. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue and operating income by segment to evaluate our segments. Segment operating income consists of net sales less cost of sales, specifically identifiable selling, general and administrative expenses, and other (income) expense items that are specifically identifiable to a segment. The other (income) expense items included in segment operating income are generally insignificant. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this Quarterly Report on Form 10-Q.

Orders and Backlog

Our entire backlog relates to our Electrical and Industrial Products Segment. Our backlog was $215.8 million as of November 30, 2012, an increase of $77.2 million, or 56%, as compared to $138.6 million at February 29, 2012. Our backlog was $132.1 million as of November 30, 2011. We acquired approximately $78.5 million of this backlog through our acquisition of NLI on June 1, 2012. Our book-to-ship ratio was 1.02 to 1 for the third quarter ended November 30, 2012, as compared to 1.08 to 1 for the same period in the prior year. Incoming orders increased 22% for the quarter compared to the same period in fiscal 2012. The acquisition of NLI contributed 18% of the 22% increase in incoming orders for the third quarter of fiscal 2013. Our book to ship ratio benefited primarily due to improved order intake for the transmission and distribution markets as well as the industrial market during the third quarter of fiscal 2013.

Table of Contents

Backlog Table
(in thousands)(unaudited)

	Period Ended		Period Ended	
Backlog	2/29/2012	$138,621	2/28/2011	$108,379
Bookings		124,666		120,697
Shipments		127,143		114,333
Backlog	5/31/2012	$136,144	5/31/2011	$114,743
Book to Ship Ratio		0.98		1.06
Bookings		151,804		123,097
Acquired Backlog		78,491		—
Shipments		153,385		114,661
Backlog	8/31/2012	$213,054	8/31/2011	$123,179
Book to Ship Ratio		0.99		1.07
Bookings		152,421		125,381
Shipments		149,675		116,493
Backlog	11/30/2012	$215,800	11/30/2011	$132,067
Book to Ship Ratio		1.02		1.08

Segment Revenues
The following table reflects the breakdown of revenue by segment:

	Three Months Ended		Nine Months Ended	
	11/30/2012	11/30/2011	11/30/2012	11/30/2011
	(In thousands)(unaudited)			
Revenue:				
Electrical and Industrial Products	$60,421	$43,849	$171,633	$136,518
Galvanizing Services	89,254	72,644	258,570	208,969
Total Revenue	$149,675	$116,493	$430,203	$345,487

For the three and nine-month periods ended November 30, 2012, consolidated revenues were $149.7 million and $430.2 million, respectively, a 29% and 25% increase, respectively, as compared to the same periods in fiscal 2012. The Electrical and Industrial Products Segment contributed 40% and 38%, respectively, and the Galvanizing Services Segment accounted for 60% and 62%, respectively, of the Company’s combined revenues for the three month periods ended November 30, 2012 and 2011. For both the nine month periods ended November 30, 2012 and 2011, the Electrical and Industrial Products Segment contributed 40% of the Company’s revenues, and the Galvanizing Services Segment accounted for 60%, of the combined revenues.

Revenues for the Electrical and Industrial Products Segment increased $16.6 million, or 38%, for the three-month period ended November 30, 2012, and increased $35.1 million, or 26%, for the nine-month period ended November 30, 2012, as compared to the same periods in fiscal 2012. For the three and nine month periods ended November 30, 2012, revenues increased due primarily to the acquisition of NLI, as compared to prior periods. Revenues from NLI were $16.4 million and $27.8 million for the three and nine month periods, respectively, ended November 30, 2102. Without the acquisition of NLI, revenues were flat for the three month period and increased 5% for the nine month period ended November 30, 2012, as compared to the same periods in the prior year. Increased revenues for the nine month period ended November 30, 2012, were a result of increased order intake during the last two quarters of fiscal 2012, which drove revenues higher during the first half of fiscal 2013.

Revenues in the Galvanizing Services Segment increased $16.6 million, or 23%, for the three-month period ended November 30, 2012, as compared to the same period in fiscal 2012 and increased $49.6 million, or 24%, for the nine-month period ended November 30, 2012, as compared to the same period in fiscal 2012. The increased revenues in our Galvanizing Services Segment resulted from a continued improved demand from the renewable energy, industrial and OEM markets. In addition to the improvements in these markets, our acquisition of Galvan Metal Inc. in the fourth quarter of fiscal 2012, combined with Galvcast Manufacturing Inc., which was acquired on October 1, 2012, contributed 12% and 7% or $8.6 million and $14.9 million, respectively, for the three and nine month periods ended November 30, 2012 of the increase in

Table of Contents

revenue. 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	
	11/30/2012	11/30/2011	11/30/2012	11/30/2011
	(In thousands)(Unaudited)			
Segment Operating Income:				
Electrical and Industrial Products	$8,952	$5,719	$25,087	$18,214
Galvanizing Services	24,449	18,555	70,631	54,431
Total Segment Operating Income	$33,401	$24,274	$95,718	$72,645

Our total segment operating income increased 38% for the quarter ended November 30, 2012 to $33.4 million as compared to $24.3 million for the same period in fiscal 2012. For the nine-month period ended November 30, 2012, our total segment operating income increased 32% to $95.7 million, as compared to $72.6 million for the same period ended November 30, 2011.

Segment operating income in the Electrical and Industrial Products Segment increased 57% and 38%, respectively, for the three and nine-month periods ended November 30, 2012, to $9.0 million and $25.1 million, respectively, as compared to $5.7 million and $18.2 million, respectively, for the same periods in fiscal 2012. Operating margins were 15% for both the three month and nine month periods ended November 30, 2012, as compared to 13% for both the comparable periods in fiscal 2012. Operating profits and margins increased for the compared periods due to leverage obtained from increased revenues combined with improved pricing as we continue to adhere to our strategy of not accepting orders with margins that fall below our targeted range. NLI had operating profits of $3.0 million and $3.5 million, respectively, for the three and nine month periods ended November 30, 2012. Without the amortization of intangibles resulting from the acquisition of NLI, the operating margins would have been 18% and 17% for the three and nine month periods ended November 30, 2012. The acquisition of NLI resulted in the amortization of intangibles of NLI was $1.7 million and $3.4 million for the three and nine month periods, respectively, ended November 30, 2012.

In the Galvanizing Services Segment, operating income increased 32% and 30% for the three and nine-month periods ended November 30, 2012, to $24.4 million and $70.6 million, respectively, as compared to $18.6 million and $54.4 million, respectively, for the same periods in fiscal 2012. Operating margins were 27% for both the three and nine-month periods ended November 30, 2012, as compared to 26% for both the comparable periods in fiscal 2012. For the three and nine month periods ended November 30, 2012, a loss was recorded in the amount of $1.0 million and $2.7 million, respectively, at our Joliet, Illinois location. This resulted from the loss of production due to a fire that resulted in a total loss of the facility. This loss is expected to be offset with insurance proceeds for business interruption in a future quarter, once the claim is settled. Without this loss, operating margins would have been 29% and 28% for the three and nine month periods ended November 30, 2012. The Canadian acquisitions of Galvan Metal and Galvcast combined contributed $2.8 million and $4.8 million, respectively in operating profits for the three and nine month periods ended November 30, 2012.

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, 2012, were $5.7 million compared to $4.7 million for the same period in fiscal 2012. For the nine-month period ended November 30, 2012, general corporate expenses were $17.8 million as compared to $15.8 million for the comparable period in the prior year. As a percentage of sales, general corporate expenses were 4% for both the three and nine-month periods ended November 30, 2012, as compared to 4% and 5%, respectively, for the same periods in fiscal 2012. Due to increased revenues for the compared periods, general corporate expenses as a percentage of sales were lower than those reported for the nine month period in fiscal 2012. For the first nine months of fiscal 2013, the Company has expensed acquisition costs of $1.1 million related to the acquisition of NLI and Galvcast, (see Note 6 to the condensed consolidated financial statements).

Interest

16

Net interest expense for the three and nine-month periods ended November 30, 2012 was $3.2 million and $9.8 million, respectively, as compared to $3.5 and $10.5 million, respectively, for the same periods in fiscal 2012. As of November 30, 2012, we had outstanding debt of $210.7 million, compared to $225 million at the same date last year. Our long-term debt to equity ratio was .60 to 1 at November 30, 2012, as compared to .76 to 1 at November 30, 2011.

Net (Gain) On Insurance Settlement

For the nine-month period ended November 30, 2012, the Company received a portion of the insurance recovery in the amount of $10 million for the fire that occurred on April 29, 2012, at our galvanizing facility in Joliet, Illinois. Based on a preliminary estimate of the damage sustained at the Joliet facility, a pretax asset impairment charge of approximately $4 million was recorded during the first quarter of fiscal 2013. The net gain on the insurance settlement of property, plant and equipment of $6 million has been recorded as an item under Net (Gain) Loss On Insurance Settlement or On Sale of Property, Plant and Equipment. During the same period last year the amount reflected was insignificant. We anticipate receiving additional insurance proceeds from these claims in an amount ranging from $10 million to $15 million when all claims are settled.

Other (Income) Expense

For the three and nine-month periods ended November 30, 2012 and 2011 the amounts in other (income) expense not specifically identifiable with a segment (see Note 4 to consolidated financial statements) were insignificant.

Income Taxes

The provision for income taxes reflects an effective tax rate of 36.4% for the three-month period ended November 30, 2012, as compared to 38.0% for same period in fiscal 2012. For the nine month period ended November 30, 2012 the tax rate was 36.1% as compared to 37.8% for the same period in the prior year. The decrease in the effective tax rate for the compared periods relates to the elimination of a valuation allowance that was recorded in the previous year for the Canadian net operating loss carry forward. The valuation allowance was not required in the current fiscal year due to the net income results from Galvan Metal Inc. Galvan Metal Inc. was acquired in January of 2012.

LIQUIDITY AND CAPITAL RESOURCES

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

Our operating activities generated cash flows of approximately $66.6 million for the nine month period ended November 30, 2012 compared to $46.8 million for the same period in the prior fiscal year. Cash flows from operations for the nine month period ended November 30, 2012 included net income in the amount of $47.2 million, depreciation and amortization in the amount of $21.1 million, and other adjustments to reconcile net income to net cash in the amount of $0.2 million. Included in other adjustments were increases from share-based compensation expense in the amount of $2.8 million, provisions for bad debts in the amount of $.5 million, deferred income taxes in the amount of $2.5 million, gain or loss on the sale of assets or insurance settlement in the amount of $(5.8) million, and other non-cash adjustments in the amount of $0.2 million. Reductions in other adjustments related to increased accounts receivable, inventories and prepaid expenses in the amount of $8.3 million, $6.7 million and $1.1 million, respectively. Positive cash flows were recognized due to increased accounts payable and other accrued liabilities in the amount of $2.5 million and $9.5 million, respectively, and decreased revenue in excess of billings and other assets in the amount of $2.0 million and $0.1 million, respectively. Accounts receivable average days outstanding were 49 days for the nine month period ended November 30, 2012, as compared to 48 days for the same period in the prior fiscal year.

During the nine month period ended November 30, 2012, capital improvements were made in the amount of $19.6 million.

During the nine month period ended November 30, 2012, dividends were paid in the amount of $9.9 million.

Our working capital declined to $142.6 million at November 30, 2012, as compared to $238.1 million at November 30, 2011, due primarily to the acquisition of NLI and GalvCast.

On May 25, 2006, we entered into the Second Amended and Restated Credit Agreement (as subsequently amended, the “Credit Agreement”) with Bank of America, N.A. (“Bank of America”). The Credit Agreement provides for a $125 million unsecured

17

revolving line of credit maturing on October 1, 2017. The Credit Agreement is used to provide for working capital needs, capital improvements, future acquisitions and letter of credit needs.

The Credit Agreement provides various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of $182.3 million, plus 50% of future net income, b) maintain on a consolidated basis a Leverage Ratio (as defined in the Credit Agreement) not to exceed 3.25:1.0, c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of at least 1.75:1.0 and d) not to make Capital Expenditures (as defined in the Credit Agreement) on a consolidated basis in an amount in excess of $40 million (excluding certain Capital Expenditures relating to the rebuilding of our Joliet facility), e) purchase price of acquisitions in a twelve month period must not exceed the last twelve months EBITDA (as defined in the Credit Agreement).

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

At November 30, 2012, we had no outstanding debt borrowed under the revolving credit agreement; we had letters of credit outstanding at that date in the amount of $16.9 million, which left approximately $108.1 million of additional credit available under the revolving credit facility.

On March 31, 2008, the Company entered into a Note Purchase Agreement (the “Note Purchase Agreement”) pursuant to which the Company issued $100 million aggregate principal amount of its 6.24% unsecured Senior Notes (the “2008 Notes”) due March 31, 2018 through a private placement (the “2008 Note Offering”). Pursuant to the Note Purchase Agreement, the Company’s payment obligations with respect to the 2008 Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement. In connection with the 2008 Note Offering, the Company obtained the consent of Bank of America to the 2008 Note Offering and the agreement of Bank of America that the 2008 Note Offering will not constitute a default under the Credit Agreement.

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

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of $116.9 million plus 50% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) not at any time permit the aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10% of Consolidated Net Worth (as defined in the Note Purchase Agreement).

As of November 30, 2012, we were in compliance with all of our debt covenants.

Our current ratio (current assets/current liabilities) was 2.3 to 1 at November 30, 2012, as compared to 4.2 to 1 at November 30, 2011. Our ratio of long-term debt to shareholders’ equity was .60 to 1 at November 30, 2012.

Historically, we have not experienced a significant impact on our operations from increases in general inflation other than for specific commodities. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum and steel in the Electrical and Industrial Products Segment, and zinc and natural gas in the Galvanizing Services Segment. When market conditions allow, we attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum and steel and through 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 policies, and there is no assurance that inflation will not impact our business in the future.

Subsequent Events

On January 2, 2013, we acquired G3 Galvanizing, a galvanizing operation in Halifax, Nova Scotia. This acquisition is part of the stated AZZ strategy to continue the geographic expansion of its served markets that should provide a basis for continued growth of the Galvanizing Services Segment of AZZ.

Table of Contents

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, 2012 are summarized in the table below under "Other."

Commodity pricing

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

In the Electrical and Industrial Products Segment, we have exposure to commodity pricing for copper, aluminum and steel. Because the Electrical and Industrial Products Segment does not commit contractually to minimum volumes, increases in price for these items are normally managed through escalation clauses in customer contracts, although during difficult market conditions these escalation clauses may not be obtainable. In addition, we look to get firm pricing contracts from our vendors on material at the time we receive orders from our customers to minimize risk.

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

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

Other

At November 30, 2012, we had outstanding letters of credit in the amount of $16.9 million. These letters of credit are issued, in lieu of performance and bid bonds, to some of our customers to cover any potential warranty costs that the customer might incur. In addition, as of November 30, 2012, a warranty reserve in the amount of $1.3 million has been established to offset any future warranty claims.

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

	Operating Leases	Long-Term Debt	Interest	Total
	(In thousands)			
2013	$1,162	$—	$3,387	$4,549
2014	4,269	14,286	11,678	30,233
2015	4,027	14,286	10,786	29,099
2016	3,734	14,286	9,895	27,915
2017	3,539	14,286	9,004	26,829
Thereafter	8,903	153,570	28,883	191,356
Total	$25,634	$210,714	$73,633	$309,981

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Table of Contents

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, and 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 to the Annual Consolidated Financial Statements filed with our Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

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

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

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

Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill - We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events, circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets. An annual impairment test of goodwill is performed in the fourth quarter of each fiscal year. The test is calculated using the anticipated future cash flows after tax from our operating segments. Based on the present value of the future cash flows, we will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and

distribution markets, the general industrial market and the hot dip galvanizing market, changes in economic conditions of these various markets, raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. Our testing concludes goodwill is not reasonably likely to be impaired.
Accounting for Income Taxes - We account for income taxes under the asset and liability method. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater

Table of Contents

than a 50% likelihood of being realized upon ultimate settlement. 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.

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

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

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

We have elected to use a Black-Scholes pricing model in the valuation of our stock options and stock appreciation rights. Restricted stock units are valued at the stock price on the date of grant.

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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

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

Table of Contents

Item 4. Controls and Procedures.

We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is (a) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely discussions regarding required disclosure and (b) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

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

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended February 29, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company’s board of directors has authorized the repurchase of 2,500,000 shares of the Company’s outstanding common stock, par value $0.10 per share. The decision to repurchase shares under this authorization will be based on market conditions and other factors at the time of the purchase. Repurchases under the share repurchase program will be made through open market purchases or private transactions, in accordance with applicable federal securities laws, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

As of November 30, 2012, no shares have been repurchased by the Company under this authorization.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Mine Safety Disclosures. None.

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 26, which immediately precedes such exhibits.

Table of Contents

SIGNATURES

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

		AZZ incorporated (Registrant)
DATE: January 9, 2013	By:	/s/ Dana Perry Dana Perry Senior Vice President for Finance Principal Financial Officer

Table of Contents

EXHIBIT INDEX

3(1)	Articles of Incorporation, and all amendments thereto (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 28, 1981).
3(2)	Articles of Amendment to the Article of Incorporation of the Registrant dated June 30, 1988 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
3(3)	Articles of Amendment to the Articles of Incorporation of the Registrant dated October 25, 1999 (incorporated by reference to the Annual Report on Form 10-K filed by Registrant for the fiscal year ended February 29, 2000).
3(4)	Articles of Amendment to the Articles of Incorporation dated July 17, 2000 (incorporated by reference to the Quarterly Report Form 10-Q filed by Registrant for the quarter ended August 31, 2000).
3(5)	Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on November 27, 2007).
3(6)	Amended and Restated Bylaws of AZZ incorporated (incorporated by reference to the Exhibit 3(1) to the Current Report Form 8-K filed by the Registrant on April 3, 2010).
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)	

	AZZ incorporated 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit A of the Proxy Statement for the 2001 Annual Shareholders Meeting).
10(8)	Third Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated December 3, 2008 (incorporated by reference to Exhibit 10(16) of the Form 10-Q filed by the registrant on July 3, 2012).
10(9)	Fourth Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated February 13, 2009 (incorporated by reference to Exhibit 10(17) of the Form 10-Q filed by the registrant on July 3, 2012).
10(10)	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).
10(11)	Sixth Amendment to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated January 20, 2012 (incorporated be reference to Exhibit 10(1) of the Form 8-K filed by the registrant on January 23, 2012).
10(12)	Note Purchase Agreement, dated as of January 20, 2011, by and among AZZ incorporated and Galvan Metal Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by the registrant on January 31, 2011).

Table of Contents

10(13)	Asset Purchase Agreement, dated April 27, 2012, by and among AZZ incorporated, AZZ AcqurieCo, Inc., and Nuclear Logistics Incorporated and certain shareholders thereof identified therein (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the registrant on May 3, 2012).
10(14)	Seventh Amendment and Consent to Second Amended and Restated Credit Agreement with Bank of America, N.A., dated October 1, 2012 (on Form 8-K filed by the registrant on October 1, 2012).
31.1	Chief Executive Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 9, 2013. Filed Herewith.
31.2	Chief Financial Officer Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 9, 2013. 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 9, 2013. 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 9, 2013. Filed Herewith.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*101.DEF	XBRL Taxonomy Definition Linkbase
*101.LAB	XBRL Taxonomy Extension Label Linkbase
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* The exhibits shall be deemed “furnished” and not “filed” pursuant to the Securities Exchange Act of 1934.