

NORTH AMERICAN GALVANIZING & COATINGS INC  
Form 10-Q  
October 20, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2008

Commission File No. 1-3920

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
(Exact name of the registrant as specified in its charter)

Delaware  
(State of Incorporation)

71-0268502  
(I.R.S. Employer Identification No.)

5314 S. Yale Avenue, Suite 1000, Tulsa, Oklahoma 74135  
(Address of principal executive offices)

(918) 494-0964  
(Registrant's telephone number)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, as defined in Rule 12b-2 of the Exchange Act (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2008:

Common Stock \$.10 Par Value . . . . . 16,215,111



NORTH AMERICAN GALVANIZING & COATINGS, INC.

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Forward Looking Statements or Information

Certain statements in this Form 10-Q, including information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, constitute “Forward-Looking Statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are typically punctuated by words or phrases such as “anticipates,” “estimate,” “should,” “may,” “management believes,” and words or phrases of similar import. The Company cautions investors that such forward-looking statements included in this Form 10-Q, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company’s stockholders and other publicly available statements issued or released by the Company involve significant risks, uncertainties, and other factors which could cause the Company’s actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, the raw materials cost of zinc and the cost of natural gas; changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company’s Form 10-K filed on March 7, 2008 with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
North American Galvanizing & Coatings, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of North American Galvanizing & Coatings, Inc. and subsidiary (the "Company") as of September 30, 2008, and the related condensed consolidated statements of income for the three- and nine-month periods ended September 30, 2008 and 2007, cash flows for the nine-month periods ended September 30, 2008 and 2007 and stockholders' equity for the nine-month period ended September 30, 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of North American Galvanizing & Coatings, Inc. and subsidiary as of December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 7, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Deloitte & Touche LLP

Tulsa, Oklahoma  
October 20, 2008

## NORTH AMERICAN GALVANIZING &amp; COATINGS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	Unaudited September 30, 2008	December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 9,000	\$ 2,966
Trade receivables—less allowances of \$174 for 2008 and \$112 for 2007	12,459	10,294
Inventories	5,885	6,399
Prepaid expenses and other assets	254	1,096
Deferred tax asset—net	943	741
Total current assets	28,541	21,496
<b>PROPERTY, PLANT AND EQUIPMENT—AT COST:</b>		
Land	2,167	2,167
Galvanizing plants and equipment	39,489	41,337
	41,656	43,504
Less—allowance for depreciation	( 21,670)	(22,413)
Construction in progress	2,126	1,396
Total property, plant and equipment—net	22,112	22,487
<b>GOODWILL—Net</b>	3,448	3,448
<b>OTHER ASSETS</b>	794	141
<b>TOTAL ASSETS</b>	<b>\$ 54,895</b>	<b>\$ 47,572</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term obligations	\$ —	\$ 1
Trade accounts payable	4,600	5,296
Accrued payroll and employee benefits	1,787	1,513
Accrued taxes	1,142	1,112
Customer deposits	1,222	—
Other accrued liabilities	2,211	2,910
Total current liabilities	10,962	10,832
<b>DEFERRED TAX LIABILITY—Net</b>	595	697
<b>LONG-TERM OBLIGATIONS</b>	—	14
Total liabilities	11,557	11,543
<b>COMMITMENTS AND CONTINGENCIES (NOTE 6)</b>		

STOCKHOLDERS' EQUITY(all shares for all periods adjusted for four-for-three stock split on September 14, 2008)

Common stock—\$.10 par value, 18,000,000 shares authorized:

Issued—16,507,813 shares in 2008 and 16,489,005 in 2007	1,651	1,237
Additional paid-in capital	13,664	14,549
Retained earnings	29,845	20,310
Common shares in treasury at cost— 292,702 in 2008 and 16,787 in 2007	(1,822)	(67)
Total stockholders' equity	43,338	36,029

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	54,895	\$	47,572
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See notes to condensed consolidated financial statements.

## NORTH AMERICAN GALVANIZING &amp; COATINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2008	2007	2008	2007
SALES	\$ 21,845	\$ 21,541	\$ 64,525	\$ 68,161
COSTS AND EXPENSES:				
Cost of sales	13,879	14,535	39,656	46,899
Selling, general and administrative expenses	2,699	2,193	7,548	6,998
Depreciation and amortization	847	876	2,556	2,612
Total costs and expenses	17,425	17,604	49,760	56,509
OPERATING INCOME	4,420	3,937	14,765	11,652
Interest expense	—	(275)	—	(527)
Interest income and other	70	15	217	69
INCOME BEFORE INCOME TAXES	4,490	3,677	14,982	11,194
INCOME TAX EXPENSE	1,453	1,164	5,447	4,129
NET INCOME	\$ 3,037	\$ 2,513	\$ 9,535	\$ 7,065

NET INCOME PER COMMON SHARE, all periods  
adjusted for four-  
for-three stock split on September 14, 2008 (Note 1):

Basic	\$ 0.19	\$ 0.15	\$ 0.58	\$ 0.43
Diluted	\$ 0.18	\$ 0.15	\$ 0.56	\$ 0.42

See notes to condensed consolidated financial statements.

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## NORTH AMERICAN GALVANIZING &amp; COATINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(In thousands)

	2008	2007
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 9,535	\$ 7,065
Loss on disposal of assets	95	-
Depreciation and amortization	2,556	2,612
Deferred income taxes	(304)	(42)
Non-cash share-based compensation	487	441
Non-cash directors' fees	306	321
Changes in operating assets and liabilities:		
Accounts receivable – net	(2,165)	(120)
Inventories and other assets	703	831
Accounts payable, accrued liabilities and other	(30)	(3,354)
Cash provided by operating activities	11,183	7,754
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(2,137)	(3,321)
Proceeds from sale of assets	22	-
Cash used in investing activities	(2,115)	(3,321)
<b>FINANCING ACTIVITIES:</b>		
Purchase of common stock for the treasury	(3,417)	(152)
Proceeds from exercise of stock options	343	194
Tax benefits realized from stock options exercised	62	232
Payments on long-term obligations	(15)	(12,388)
Cash paid for fractional shares pursuant to stock split effected by stock dividend	(7)	(3)
Proceeds from long-term obligations	-	11,035
Payments on bonds	-	(5,265)
Cash used in financing activities	(3,034)	(6,347)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,034</b>	<b>(1,914)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	2,966	1,979
End of period	\$ 9,000	\$ 65
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest	\$ -	\$ 444
Income Taxes	\$ 5,166	\$ 4,214
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisitions of fixed assets under capital lease obligations	\$ -	\$ 137
Acquisitions of fixed assets included in payables at period end	\$ 161	\$ 411

See notes to condensed consolidated financial statements.



## NORTH AMERICAN GALVANIZING &amp; COATINGS, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2008

(In thousands, except share amounts)

	Common Stock \$.10 Par Value		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
BALANCE—December 31, 2007	12,366,754	\$ 1,237	\$ 14,549	\$ 20,310	12,590	\$ (67)	\$ 36,029
Net income	—	—	—	9,535	—	—	9,535
Stock split effected by a four for three stock dividend, including cash paid for fractional shares	4,126,263	413	(420)	—	53,500	—	(7)
Issuance of treasury shares for stock option transactions, net of shares tendered for payment and including tax benefit	—	—	(1,064)	—	(233,712)	1,469	405
Incentive Stock Plan Compensation	—	—	487	—	—	—	487
Stock units for Director Stock Unit Program	—	—	306	—	—	—	306
Issuance of common stock for Director Stock Unit Program transactions	14,796	1	(1)	—	—	—	—
Issuance of treasury shares for Director Stock Unit Program transactions	—	—	(193)	—	(31,969)	193	—
Purchase of common stock for the treasury	—	—	—	—	492,293	(3,417)	(3,417)
BALANCE—September 30, 2008	16,507,813	\$ 1,651	\$ 13,664	\$ 29,845	292,702	\$ (1,822)	\$ 43,338



NORTH AMERICAN GALVANIZING & COATINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2008 and 2007  
UNAUDITED

Note 1. Basis of Presentation

The condensed consolidated financial statements included in this report have been prepared by North American Galvanizing & Coatings, Inc. (the "Company") pursuant to its understanding of the rules and regulations of the Securities and Exchange Commission for interim reporting and include all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation. The condensed consolidated financial statements include the accounts of the Company and its subsidiary.

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 such rules and regulations for interim reporting. The Company believes that the disclosures are adequate to make the information presented not misleading. However, these interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the periods. Actual results will be determined based on the outcome of future events and could differ from the estimates. The Company's sole business is hot dip galvanizing and coatings which is conducted through its wholly owned subsidiary, North American Galvanizing Company ("NAGC").

The board of directors declared a four-for-three stock split effected by a stock dividend for all shareholders of record on August 31, 2008, payable on September 14, 2008. All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented. In addition, the number of shares of common stock issuable upon the exercise of outstanding stock options and the vesting of other stock awards, as well as the number of shares of common stock reserved for issuance under our share-based compensation plans, were proportionately increased, and the pricing of options and other stock awards was proportionately adjusted, in accordance with the terms of those respective agreements and plans.

Note 2. Share-based Compensation

At September 30, 2008 the Company has two share-based compensation plans, which are shareholder-approved, the 2004 Incentive Stock Plan and the Director Stock Unit Program (Note 7). The Company's 2004 Incentive Stock Plan (the Plan) permits the grant of share options and shares to its employees and directors for up to 2,500,000 shares of common stock. The Company believes that such awards better align the interests of its employees and directors with those of its shareholders. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards usually vest based on 4 years of continuous service and have 10-year contractual terms.

The compensation cost for the Plan, exclusive of the Director Stock Unit Program (Note 7), was \$217,000 and \$161,000 for the three-months ended September 30, 2008 and 2007, respectively, and \$487,000 and \$441,000 for the nine-months ended September 30, 2008 and 2007, respectively. No tax benefit was recognized in income tax expense for the 2007 incentive stock plan compensation cost. There was no share-based compensation cost capitalized during 2007 or 2008.



Non-vested Shares. During March 2008, the Compensation Committee recommended and the Board of Directors approved a grant totaling 126,667 non-vested shares for management employees and 66,667 non-vested shares for directors. During July 2008, the Compensation Committee recommended and the Board of Directors approved a grant totaling 80,000 non-vested shares for directors. Non-vested shares granted to management employees and management directors vest and become nonforfeitable on the date that is four years after the date of grant; or if the participant is a non-employee director of the Company at the time of the grant, the date that is two years after the date of the grant. The Company is recognizing this compensation expense over the two year or four year vesting period, as applicable, on a ratable basis. Non-vested shares are valued at market value on the grant date.

Stock Options. In the first nine months of 2007, the Company issued stock options for 670,000 shares at \$2.60 per share. No stock options were issued in the first nine months of 2008.

The fair value of options granted under the Company's stock option plans was estimated using the Black-Scholes option-pricing model with the following assumptions used:

Dollars in Thousands, Except per Share Amounts	Three Months Ended September 30		Nine Months Ended September 30		
	2008	2007	2008	2007	
Volatility	--	--	--	--	66%
Discount Rate	--	--	--	--	4.6%
Dividend Yield	--	--	--	--	--
Fair Value, adjusted for four-for three stock split	--	--	--	--	\$1.77

Note 3. Earnings Per Common Share

Basic earnings per common share for the periods presented are computed based upon the weighted average number of shares outstanding. Diluted earnings per common share for the periods presented are based on the weighted average shares outstanding, adjusted for the assumed exercise of stock options and for non-vested shares using the treasury stock method. The shares and earnings per share for all periods have been adjusted to reflect the Company's four-for-three stock split effected in the form of a stock dividend on September 14, 2008.

Three Months Ended September 30	Number of Shares	
	2008	2007
Basic	16,325,579	16,467,023
Diluted	17,034,747	17,148,692

Nine Months Ended September 30	Number of Shares	
	2008	2007
Basic	16,356,193	16,389,691
Diluted	17,023,924	16,976,313

There were no options priced higher than the share market value at September 30, 2008 or September 30, 2007.

#### Note 4. Credit Agreement

The Company's credit agreement provides for a revolving credit facility in the aggregate principal amount of \$25 million with future increases of up to an aggregate principal amount of \$10 million at the discretion of the lender. The credit facility matures on May 16, 2012, with no principal payments required before the maturity date and no prepayment penalty. The ongoing purpose of the facility is to provide for issuance of standby letters of credit, acquisitions, and for other general corporate purposes.

At September 30, 2008, the Company had unused borrowing capacity of \$24.8 million, based on no borrowings outstanding under the revolving credit facility, and \$0.2 million of letters of credit to secure payment of current and future workers' compensation claims.

Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAGC. The credit agreement provides for an applicable margin ranging from 0.75% to 2.00% over LIBOR and commitment fees ranging from 0.10% to 0.25% depending on the Company's Funded Debt to EBITDA Ratio (as defined). If the Company had borrowings outstanding under the revolving credit facility at September 30, 2008, the applicable margin would have been 0.75% and the variable interest rate including the applicable margin would have been 4.68%.

#### Note 5. Bonds Payable

During the first quarter of 2000, the Company issued \$9,050,000 of Harris County Industrial Development Corporation Adjustable Rate Industrial Development Bonds, Series 2000 (the "Bonds"). The Bonds were senior to other debt of the Company.

The Internal Revenue Service reviewed the Harris County Industrial Development Corporation Adjustable Rate Industrial Development Bonds and compliance with the Internal Revenue Code section (IRC) 144(a)(4)(ii)'s dollar limitation on capital expenditures within a relevant period. As a result of the review, during 2006 the Company recorded an estimated liability of \$145,000 and in March, 2007, the Company entered into a settlement agreement (the "Closing Agreement") with the Harris County Industrial Development Corporation and the Commissioner of the Internal Revenue Service ("IRS") and subsequently redeemed the bonds on July 2, 2007. The Company used proceeds from the new five-year credit facility to redeem the bonds, as specifically contemplated in the agreement.

#### Note 6. Commitments and Contingencies

The Company has commitments with domestic and foreign zinc producers and brokers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment or are based on such quoted prices at the time of delivery. At September 30, 2008 the aggregate commitments for the procurement of zinc at fixed prices were approximately \$5.7 million. The Company reviews these fixed price contracts for losses using the same methodology employed to estimate the market value of its zinc inventory. The Company had no unpriced commitments for zinc purchases at September 30, 2008.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company expects to continue evaluating hedging instruments to minimize the impact of zinc price fluctuations. The Company had no derivative instruments required to be reported at fair value at September 30, 2008 or December 31, 2007, and did not utilize derivatives in the nine-month period ended September 30, 2008 or the year ended December 31, 2007, except for the forward purchase agreements described above, which are accounted for as normal purchases.



The Company's total off-balance sheet contractual obligations at September 30, 2008, consist of approximately \$1.0 million for long-term operating leases for vehicles, office space, office equipment, galvanizing facilities and galvanizing equipment and approximately \$5.7 million for zinc purchase commitments. The various leases for galvanizing facilities, including option renewals, expire from 2008 to 2017.

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On August 30, 2004, the Company was informed by counsel for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") that the Water District had, on August 25, 2004 filed a Second Amended Complaint in the United States District Court, Northern District of Illinois, Eastern Division, naming North American Galvanizing & Coatings, Inc. (formerly known as Kinark Corporation) as an added defendant. Counsel for the Water District also gave the Company notice of the Water District's intent to file (or amend the Complaint to include) a Citizens Suit under the Resource Compensation and Recovery Act ("RCRA") against North American Galvanizing & Coatings, Inc., pursuant to Section 7002 of RCRA, 42 U.S.C. Section 6972. This Second Amended Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of \$1,810,463.34 against Lake River Corporation and Lake River Holding Company, Inc. in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. Lake River Corporation conducted business as a subsidiary of the Company until March 31, 2000, at which time Lake River Corporation was sold to Lake River Holding Company, Inc. and ceased to be a subsidiary of the Company. The Second Amended Complaint asserts that prior to the sale of Lake River Corporation, the Company directly operated the Lake River facility and, accordingly, seeks to have the Court pierce the corporate veil of Lake River Corporation and enforce the default judgment order of August 12, 2004 against the Company. The Company denied the assertions set forth in the Water District's Complaint and on November 13, 2004 filed a partial motion for dismissal of the Second Amended Complaint.

In December 2004, the Water District filed a Third Amended complaint in the litigation, adding two claims: (1) a common law claim for nuisance; and (2) a claim under the federal Resource Conservation and Recovery Act, in which the Water District argues that the Company is responsible for conditions on the plaintiff's property that present an "imminent and substantial endangerment to human health and the environment." In January 2005, the Company filed a partial motion to dismiss the Third Amended Complaint. On April 12, 2005, the Court issued an order denying in part and granting in part the Company's partial motion to dismiss plaintiff's third amended complaint. The Company filed an appeal with the Seventh Circuit Court of Appeals requesting dismissal of the sole CERCLA claim contained in the Third Amended Complaint that was not dismissed by the United States District Court's April 12, 2005 order. On January 17, 2007, the Seventh Circuit affirmed the judgment of the United States District Court, stating that the Water District has a right of action under CERCLA.

On April 11, 2007, the Company entered into an Agreement in Principle establishing terms for a conditional settlement. Under the terms of the Agreement in Principle, the Company has agreed to fund 50% of the cost, up to \$350,000, to enroll the site in the Illinois Voluntary Site Remediation Program. These funds will be used to prepare environmental reports for approval by the Illinois Environmental Protection Agency. The parties' shared objective is to obtain a "no further remediation determination" from the Illinois EPA based on a commercial / industrial cleanup standard. If the cost to prepare these reports equals or exceeds \$700,000, additional costs above \$700,000 (\$350,000 per party) will be borne 100% by the Water District.

If a remediation plan is required based on the site assessment, the Company has also agreed to fund 50% of the cost to implement the remediation plan, up to a maximum of \$1 million. If the cost to implement the plan is projected to exceed \$2 million, then the Water District will have the option to terminate the agreement and resume the litigation. The Water District will have to choose whether to accept or reject the \$1 million funding commitment from the Company before accepting any payments from the Company for implementation of the remediation plan. The Company does not believe that it can determine whether any cleanup is required or if any final cleanup cost is likely to exceed \$2 million until additional data has been collected and analyzed in connection with the environmental reports. If the Water District elects to accept the maximum funding commitment, the Company has also agreed to remove certain piping and other equipment from one of the parcels. The cost to remove the piping is estimated to be between \$35,000 and \$60,000.

Although the boards of both the Water District and the Company have approved the Agreement in Principle, the agreement of the parties must be embodied in a formal settlement agreement. The parties have been working since April 11, 2007 but have not yet reached a final agreement.

The Company has recorded a liability for \$350,000 related to the Water District claim in recognition of its currently known and estimable funding commitment under the Agreement in Principle. In the event that the Water District rejects the funding commitment described above, the potential claim could exceed the amount of the previous default judgment. As neither a site evaluation nor a remediation plan has been developed, the Company is unable to make a reasonable estimate of the amount or range of further loss, if any, that could result. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

In September 2008, the United States Environmental Protection Agency (EPA) notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas. This matter pertains to galvanizing facilities of the Company's subsidiary and their disposal of waste handled by their supplier in the early 1980's. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company has accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and anticipates that the EPA's offer will be accepted on or before the deadline of December 30, 2008.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was one of approximately 60 potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the PRPs or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 PRPs is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued.

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

North American Galvanizing & Coatings, Inc. and its subsidiary are parties to a number of other lawsuits and environmental matters which are not discussed herein. Management of the Company, based upon their analysis of known facts and circumstances and reports from legal counsel, does not believe that any other such matter will have a material adverse effect on the results of operations, financial conditions or cash flows of the Company.

#### Note 7. Director Stock Unit Program

At the Company's Annual Meeting held July 21, 2004, stockholders approved a Director Stock Unit Program ("Program"). Under the Program, effective January 1, 2005, each non-management director is required to defer at least 50% (\$17,500) of his or her annual fee, and may elect to defer 75% (\$26,250) or 100% (\$35,000) of the annual fee. The director must make the annual deferral decision before the start of the year. Amounts deferred under the Program are converted into a deferred Stock Unit grant under the Company's 2004 Incentive Stock Plan at the average of the closing prices for a share of the Company's Common Stock for the 10 trading days before the quarterly director fee payment dates.



To encourage deferral of fees by non-management directors, the Company makes a matching Stock Unit grant ranging from 25% to 75% of the amount deferred by the director as of the same quarterly payment dates. Under the Program, the Company automatically defers from the management director's salary a dollar amount equal to 50% (\$17,500) of the director fees for outside directors. The management director may elect to defer an amount equal to 75% (\$26,250) or 100% (\$35,000) of the director fees for non-management directors from his or her compensation, and the Company matches deferrals by the management director with Stock Units at the same rate as it matches deferrals for non-management directors.

Deliveries of the granted stock are made five calendar years following the year for which the deferral is made subject to acceleration upon the resignation or retirement of the director or a change in control.

All of the Company's Outside Directors elected to defer 100% of the annual board fee for both 2008 and 2007, and the Company's chief executive officer and Inside Director elected to defer a corresponding amount of his salary in 2008 and 2007. During the first nine months of 2008, fees and salary deferred by the Directors represented a total of 62,353 stock unit grants valued at \$4.91 per stock unit. During the first nine months of 2007, fees and salary deferred by the Directors represented a total of 95,265 stock unit grants valued at \$3.38 per stock unit.

#### Note 8. Certain Relationships and Related Transactions

T. Stephen Gregory, a director of North American Galvanizing & Coatings, Inc. from June, 2005 to December, 2007, is the chairman of the board and a shareholder of Gregory Industries, Inc., a customer of the Company. Total sales to Gregory Industries, Inc. for the nine-month period ended September 30, 2007 were approximately \$1.0 million. The amount due from Gregory Industries, Inc. included in trade receivables at September 30, 2007 was approximately \$.2 million.

North American Galvanizing & Coatings, Inc.

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

GENERAL

North American Galvanizing is a leading provider of corrosion protection for iron and steel components fabricated by its customers. Hot dip galvanizing is the process of applying a zinc coating to fabricated iron or steel material by immersing the material in a bath consisting primarily of molten zinc. Based on the number of its operating plants, the Company is one of the largest merchant market hot dip galvanizing companies in the United States.

During the nine-month period ended September 30, 2008, there were no significant changes to the Company's critical accounting policies previously disclosed in Form 10-K for the year ended December 31, 2007.

The Company's galvanizing plants offer a broad line of services including centrifuge galvanizing for small threaded products, sandblasting, chromate quenching, polymeric coatings, and proprietary INFRASHIELDSM Coating Application Systems for polyurethane protective linings and coatings over galvanized surfaces. The Company's mechanical and chemical engineers provide customized assistance with initial fabrication design, project estimates and steel chemistry selection.

The Company's galvanizing and coating operations are composed of eleven facilities located in Colorado, Kentucky, Missouri, Ohio, Oklahoma, Tennessee and Texas. These facilities operate galvanizing kettles ranging in length from 16 feet to 62 feet, and have lifting capacities ranging from 12,000 pounds to 40,000 pounds.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level. In 2007, the Company galvanized steel products for approximately 1,700 customers nationwide.

All of the Company's sales are generated for customers whose end markets are principally in the United States. The Company markets its galvanizing and coating services directly to its customers and does not utilize agents or distributors. Although hot dip galvanizing is considered a mature service industry, the Company is actively engaged in developing new markets through participation in industry trade shows, metals trade associations and presentation of technical seminars by its national marketing service team.

Hot dip galvanizing provides metals corrosion protection for many product applications used in commercial, construction and industrial markets. The Company's galvanizing can be found in almost every major application and industry that requires corrosion protection where iron or steel is used, including the following end user markets:

- highway and transportation
- power transmission and distribution
- wireless and telecommunications
  - utilities
- petrochemical processing
  - industrial grating
- infrastructure including buildings, airports, bridges and power generation
  - wastewater treatment
- fresh water storage and transportation
  - pulp and paper

- pipe and tube
- food processing
- agricultural (irrigation systems)
- recreation (boat trailers, marine docks, stadium scaffolds)
  - bridge and pedestrian handrail
  - commercial and residential lighting poles
- original equipment manufactured products, including general fabrication.

As a value-added service provider, the Company's revenues are directly influenced by the level of economic activity in the various end markets that it serves. Economic activity in those markets that results in the expansion and/or upgrading of physical facilities (i.e., construction) may involve a time-lag factor of several months before translating into a demand for galvanizing fabricated components. Despite the inherent seasonality associated with large project construction work, the Company maintains a relatively stable revenue stream throughout the year by offering fabricators, large and small, reliable and rapid turn-around service.

The Company records revenues when the galvanizing processes and inspection utilizing industry-specified standards are completed. The Company generates all of its operating cash from such revenues, and utilizes a line of credit secured by the underlying accounts receivable and zinc inventory to facilitate working capital needs.

Each of the Company's galvanizing plants operate in a highly competitive environment underscored by pricing pressures, primarily from other public and privately-owned galvanizers and alternative forms of corrosion protection, such as paint. The Company's long-term response to these challenges has been a sustained strategy focusing on providing a reliable quality of galvanizing to standard industry technical specifications and rapid turn-around time on every project, large and small. Key to the success of this strategy is the Company's continuing commitment and long-term record of reinvesting earnings to upgrade its galvanizing facilities and provide technical innovations to improve production efficiencies; and to construct new facilities when market conditions present opportunities for growth. The Company is addressing long-term opportunities to expand its galvanizing and coatings business through programs to increase industry awareness of the proven, unique benefits of galvanizing for metals corrosion protection. Each of the Company's galvanizing plants is linked to a centralized system involving sales order entry, facility maintenance and operating procedures, quality assurance, purchasing and credit and accounting that enable the plant to focus on providing galvanizing and coating services in the most cost-effective manner.

The principal raw materials essential to the Company's galvanizing and coating operations are zinc and various chemicals which are normally available for purchase in the open market.

#### Key Indicators

Key industries which historically have provided the Company some indication of the potential demand for galvanizing in the near-term, (i.e., primarily within a year) include highway and transportation, power transmission and distribution, telecommunications and the level of quoting activity for regional metal fabricators. In general, growth in the commercial/industrial sectors of the economy generates new construction and capital spending which ultimately impacts the demand for galvanizing.

Key operating measures utilized by the Company include new orders, zinc inventory, tons of steel galvanized, revenue, pounds and labor costs per hour, zinc usage related to tonnage galvanized, and lost-time safety performance. These measures are reported and analyzed on various cycles, including daily, weekly and monthly.

The Company utilizes a number of key financial measures to evaluate the operations at each of its galvanizing plants, to identify trends and variables impacting operating productivity and current and future business results, which include: return on capital employed, sales, gross profit, fixed and variable costs, selling and general administrative

expenses, operating cash flows, capital expenditures, interest expense, and a number of ratios such as profit from operations and accounts receivable turnover. These measures are reviewed by the Company's operating and executive management each month, or more frequently, and compared to prior periods, the current business plan and to standard performance criteria, as applicable.

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## RESULTS OF OPERATIONS

The following table shows the Company's results of operations for the three- and nine-month periods ended September 30, 2008 and 2007:

	(Dollars in thousands)			
	Three Months Ended September 30, 2008		2007	
	Amount	% of Sales	Amount	% of Sales
Sales	\$ 21,845	100.0%	\$ 21,541	100.0%
Cost of sales	13,879	63.4%	14,535	67.5%
Selling, general and administrative expenses	2,699	12.4%	2,193	10.2%
Depreciation and Amortization	847	3.9%	876	4.1%
Operating income	4,420	20.3%	3,937	18.2%
Interest expense	—	0.0%	(275)	(1.3%)
Interest income and other	70	0.3%	15	0.1%
Income from operations before income taxes	4,490	20.6%	3,677	17.0%
Income tax expense	1,453	6.7%	1,164	5.4%
Net income	\$ 3,037	13.9%	\$ 2,513	11.6%

	(Dollars in thousands)			
	Nine Months Ended September 30, 2008		2007	
	Amount	% of Sales	Amount	% of Sales
Sales	\$ 64,525	100.0%	\$ 68,161	100.0%
Cost of sales	39,656	61.5%	46,899	68.8%
Selling, general and administrative expenses	7,548	11.6%	6,998	10.3%
Depreciation and Amortization	2,556	4.0%	2,612	3.8%
Operating income	14,765	22.9%	11,652	17.1%
Interest expense	—	0.0%	(527)	(0.8%)
Interest income and other	217	0.3%	69	0.1%
Income from operations before income taxes	14,982	23.2%	11,194	16.4%
Income tax expense	5,447	8.4%	4,129	6.1%
Net income	\$ 9,535	14.8%	\$ 7,065	10.3%

## 2008 COMPARED TO 2007

**Sales.** Third quarter 2008 volumes were 14% higher than volumes in the third quarter of 2007 and 4% higher than volumes in the second quarter of 2008. First nine months' 2008 volumes were 2.2% higher than volumes in the first nine months of 2007. Volumes for the 2007 third quarter were lower as a result of the scheduled shutdown of the Canton plant to replace the kettle and furnace during the month of July, 2007. Although higher than 2007, third quarter 2008 volume was negatively impacted by the nine day shutdown of the Company's Houston, Texas plant due to Hurricane Ike.

Sales for the three-months ended September 30, 2008 increased 1.4% over the same prior year period primarily due to the volume increase. Sales for the nine-month period ended September 30, 2008 decreased 5.3% compared to the same period prior year due to a lower average sales price compared to the same period in 2007. Sales price decreases relate to market decreases in zinc costs, the Company's primary variable cost component.

**Cost of Goods Sold.** Cost of goods sold for the three-months ended September 30, 2008 decreased \$.7 million over the same prior year period due to a \$3.5 million decrease in zinc costs, offset by a \$2.0 million cost increase due to additional galvanizing volume, a \$.3 million increase in labor costs, a \$0.2 million increase in natural gas costs and a \$0.3 million increase in other plant overhead costs. For the nine month period ended September 30, 2008, cost of goods sold decreased \$7.2 million over the same period in 2007. Of the \$7.2 million decrease, \$9.8 million was due to a decrease in zinc costs offset by a \$.9 million cost increase due to additional galvanizing volume, a \$.7 million increase in other plant overhead costs, a \$.6 million increase in natural gas costs and a \$.4 million increase in labor costs.

**Selling, General and Administrative (SG&A) Expenses.** SG&A increased \$.5 million in the third quarter and in the nine month period ended September 30, 2008 compared to the same prior year periods primarily due to increases in accruals for incentive and share based compensation, \$.3 million, and increased legal and professional expenses, \$.2 million.

**Operating Income.** For the quarter ended September 30, 2008, operating income was \$4.4 million compared to \$4.0 million for the third quarter of 2007. The operating income for the nine-months ended September 30, 2008 was \$14.8 million compared to \$11.7 million for the same 2007 period. The increase in operating income is primarily due to a decrease in zinc costs partially offset by a decrease in sales price.

**Income Taxes.** The Company's effective income tax rates for the third quarter of 2008 and 2007 were 32.4% and 31.7%, respectively. For the nine months ended September 30, 2008 and 2007, the effective tax rates were 36.4% and 36.9%, respectively. The effective tax rates differ from the federal statutory rate primarily due to state income taxes and minor adjustments to previous tax estimates.

**Net Income.** For the third quarter of 2008, the Company reported net income of \$3.0 million compared to net income of \$2.5 million for the third quarter of 2007. For the nine months ended September 30, 2008, the net income was \$9.5 million compared to \$7.1 million for the nine months ended September 30, 2007. The increase in net income is primarily due to a decrease in zinc costs partially offset by a decrease in sales price.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations and borrowings under credit facilities have consistently been adequate to fund its current facilities' working capital and base capital spending requirements. During 2008 and 2007, operating cash flow and borrowings under credit facilities have been the primary sources of liquidity. The Company monitors working capital and planned capital spending to assess liquidity and minimize cyclical cash flow.



Cash flow from operating activities for the first nine months of 2008 and 2007 was \$11.2 million and \$7.8 million, respectively. The increase of \$3.4 million in 2008 cash flow from operations was primarily due to increased net income.

Cash of \$2.1 million used in 2008 investing activities through September 30 consisted of capital expenditures for equipment and upgrade of existing galvanizing facilities. Investing activities in the first nine months of 2007 included \$3.3 million in capital expenditures. The Company expects capital expenditures for 2008 to approximate \$4.7 million.

During the first nine months of 2008, total debt (current and long-term obligations and bonds payable) outstanding at December 31, 2007 of \$15,000 was repaid. The Company has no outstanding debt as of September 30, 2008. Other financing activity during the first nine months 2008 consisted of purchases of common stock for the treasury totaling \$3.4 million. During the first nine months of 2007, total debt (current and long-term obligations and bonds payable) decreased \$6.6 million to \$2.7 million.

The Company's credit agreement provides for a revolving credit facility in the aggregate principal amount of \$25 million with future increases of up to an aggregate principal amount of \$10 million at the discretion of the lender. The credit facility matures on May 16, 2012, with no principal payments required before the maturity date and no prepayment penalty. The ongoing purpose of the facility is to provide for issuance of standby letters of credit, acquisitions, and for other general corporate purposes.

At September 30, 2008, the Company had unused borrowing capacity of \$24.8 million, based on no borrowings outstanding under the revolving credit facility, and \$0.2 million of letters of credit to secure payment of current and future workers' compensation claims.

Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAGC. The credit agreement provides for an applicable margin ranging from 0.75% to 2.00% over LIBOR and commitment fees ranging from 0.10% to 0.25% depending on the Company's Funded Debt to EBITDA Ratio (as defined). If the Company had borrowings outstanding under the revolving credit facility at September 30, 2008, the applicable margin would have been 0.75% and the variable interest rate including the applicable margin would have been 4.68%.

The Company has various commitments primarily related to vehicle and equipment operating leases, facilities operating leases, and zinc purchase commitments. The Company's off-balance sheet contractual obligations at September 30, 2008, consist of \$.3 million for vehicle and equipment operating leases, \$5.7 million for zinc purchase commitments, and \$.7 million for long-term operating leases for galvanizing and office facilities. The various leases for galvanizing facilities, including option renewals, expire from 2008 to 2017. The vehicle leases expire annually on various schedules through 2012. NAGC periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc can be for up to one year.

## ENVIRONMENTAL MATTERS

The Company's facilities are subject to extensive environmental legislation and regulations affecting their operations and the discharge of wastes. The cost of compliance with such regulations in the first nine months of 2008 and 2007 was approximately \$1.3 million and \$1.5 million, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

On August 30, 2004, the Company was informed by counsel for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") that the Water District had, on August 25, 2004 filed a Second Amended Complaint in the United States District Court, Northern District of Illinois, Eastern Division, naming North American Galvanizing & Coatings, Inc. (formerly known as Kinark Corporation) as an added defendant. Counsel for the Water District also gave the Company notice of the Water District's intent to file (or amend the Complaint to include) a Citizens Suit under the Resource Compensation and Recovery Act ("RCRA") against North American Galvanizing & Coatings, Inc., pursuant to Section 7002 of RCRA, 42 U.S.C. Section 6972. This Second Amended Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of \$1,810,463.34 against Lake River Corporation and Lake River Holding Company, Inc. in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. Lake River Corporation conducted business as a subsidiary of the Company until March 31, 2000, at which time Lake River Corporation was sold to Lake River Holding Company, Inc. and ceased to be a subsidiary of the Company. The Second Amended Complaint asserts that prior to the sale of Lake River Corporation, the Company directly operated the Lake River facility and, accordingly, seeks to have the Court pierce the corporate veil of Lake River Corporation and enforce the default judgment order of August 12, 2004 against the Company. The Company denied the assertions set forth in the Water District's Complaint and on November 13, 2004 filed a partial motion for dismissal of the Second Amended Complaint.

In December 2004, the Water District filed a Third Amended complaint in the litigation, adding two claims: (1) a common law claim for nuisance; and (2) a claim under the federal Resource Conservation and Recovery Act, in which the Water District argues that the Company is responsible for conditions on the plaintiff's property that present an "imminent and substantial endangerment to human health and the environment." In January 2005, the Company filed a partial motion to dismiss the Third Amended Complaint. On April 12, 2005, the Court issued an order denying in part and granting in part the Company's partial motion to dismiss plaintiff's third amended complaint. The Company filed an appeal with the Seventh Circuit Court of Appeals requesting dismissal of the sole CERCLA claim contained in the Third Amended Complaint that was not dismissed by the United States District Court's April 12, 2005 order. On January 17, 2007, the Seventh Circuit affirmed the judgment of the United States District Court, stating that the Water District has a right of action under CERCLA.

On April 11, 2007, the Company entered into an Agreement in Principle establishing terms for a conditional settlement. Under the terms of the Agreement in Principle, the Company has agreed to fund 50% of the cost, up to \$350,000, to enroll the site in the Illinois Voluntary Site Remediation Program. These funds will be used to prepare environmental reports for approval by the Illinois Environmental Protection Agency. The parties' shared objective is to obtain a "no further remediation determination" from the Illinois EPA based on a commercial / industrial cleanup standard. If the cost to prepare these reports equals or exceeds \$700,000, additional costs above \$700,000 (\$350,000 per party) will be borne 100% by the Water District.

If a remediation plan is required based on the site assessment, the Company has also agreed to fund 50% of the cost to implement the remediation plan, up to a maximum of \$1 million. If the cost to implement the plan is projected to exceed \$2 million, then the Water District will have the option to terminate the agreement and resume the litigation. The Water District will have to choose whether to accept or reject the \$1 million funding commitment from the Company before accepting any payments from the Company for implementation of the remediation plan. The Company does not believe that it can determine whether any cleanup is required or if any final cleanup cost is likely to exceed \$2 million until additional data has been collected and analyzed in connection with the environmental reports. If the Water District elects to accept the maximum funding commitment, the Company has also agreed to remove certain piping and other equipment from one of the parcels. The cost to remove the piping is estimated to be between \$35,000 and \$60,000.

Although the boards of both the Water District and the Company have approved the Agreement in Principle, the agreement of the parties must be embodied in a formal settlement agreement. The parties have been working since April 11, 2007 but have not yet reached a final agreement.

The Company has recorded a liability for \$350,000 related to the Water District claim in recognition of its currently known and estimable funding commitment under the Agreement in Principle. In the event that the Water District rejects the funding commitment described above, the potential claim could exceed the amount of the previous default judgment. As neither a site evaluation nor a remediation plan has been developed, the Company is unable to make a reasonable estimate of the amount or range of further loss, if any, that could result. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

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In September 2008, the United States Environmental Protection Agency (EPA) notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas. This matter pertains to galvanizing facilities of the Company's subsidiary and their disposal of waste handled by their supplier in the early 1980's. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company has accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and anticipates that the EPA's offer will be accepted on or before the deadline of December 30, 2008.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was one of approximately 60 potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the PRPs or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 PRPs is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

North American Galvanizing & Coatings, Inc. and its subsidiary are parties to a number of other lawsuits and environmental matters which are not discussed herein. Management of the Company, based upon their analysis of known facts and circumstances and reports from legal counsel, does not believe that any such matter will have a material adverse effect on the results of operations, financial conditions or cash flows of the Company.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's operations include managing market risks related to changes in interest rates and zinc commodity prices.

**Interest Rate Risk.** The Company is exposed to financial market risk related to changes in interest rates to the extent the company has borrowing outstanding. At September 30, 2008, the Company had no outstanding debt.

**Zinc Price Risk.** NAGC periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its zinc requirements for its hot dip galvanizing operations. Commitments for the future delivery of zinc, which can be for up to one (1) year, reflect rates quoted on the London Metals Exchange. At September 30, 2008, the aggregate fixed price commitments for the procurement of zinc were approximately \$5.7 million (Note 6). With respect to these zinc fixed price purchase commitments, a hypothetical decrease of 10% in the market price of zinc from the September 30, 2008 level represented a potential lost gross margin opportunity of approximately \$570,000.

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The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company recognizes that hedging instruments may be effective in minimizing the impact of zinc price fluctuations. The Company's current zinc forward purchase commitments are considered derivatives, but the Company has elected to account for these purchase commitments as normal purchases.

#### Item 4. Controls and Procedures

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

The Company's certifying officers have indicated that there were no significant changes in internal controls over financial reporting that have occurred during the fiscal quarter ended September 30, 2008 that materially affected, or were reasonably likely to materially affect, internal controls over financial reporting.

## Part II Other Information

#### Item 1. Legal Proceedings.

On August 30, 2004, the Company was informed by counsel for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") that the Water District had, on August 25, 2004 filed a Second Amended Complaint in the United States District Court, Northern District of Illinois, Eastern Division, naming North American Galvanizing & Coatings, Inc. (formerly known as Kinark Corporation) as an added defendant. Counsel for the Water District also gave the Company notice of the Water District's intent to file (or amend the Complaint to include) a Citizens Suit under the Resource Compensation and Recovery Act ("RCRA") against North American Galvanizing & Coatings, Inc., pursuant to Section 7002 of RCRA, 42 U.S.C. Section 6972. This Second Amended Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of \$1,810,463.34 against Lake River Corporation and Lake River Holding Company, Inc. in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. Lake River Corporation conducted business as a subsidiary of the Company until June 30, 2000, at which time Lake River Corporation was sold to Lake River Holding Company, Inc. and ceased to be a subsidiary of the Company. The Second Amended Complaint asserts that prior to the sale of Lake River Corporation, the Company directly operated the Lake River facility and, accordingly, seeks to have the Court pierce the corporate veil of Lake River Corporation and enforce the default judgment order of August 12, 2004 against the Company. The Company denied the assertions set forth in the Water District's Complaint and on November 13, 2004 filed a partial motion for dismissal of the Second Amended Complaint.

In December 2004, the Water District filed a Third Amended complaint in the litigation, adding two claims: (1) a common law claim for nuisance; and (2) a claim under the federal Resource Conservation and Recovery Act, in which the Water District argues that the Company is responsible for conditions on the plaintiff's property that present an "imminent and substantial endangerment to human health and the environment." In January 2005, the Company filed a partial motion to dismiss the Third Amended Complaint. On April 12, 2005, the Court issued an order denying in part and granting in part the Company's partial motion to dismiss plaintiff's third amended complaint. The Company filed an appeal with the Seventh Circuit Court of Appeals requesting dismissal of the sole CERCLA claim contained in the Third Amended Complaint that was not dismissed by the United States District Court's April 12, 2005 order. On January 17, 2007, the Seventh Circuit affirmed the judgment of the United States District Court, stating that the Water District has a right of action under CERCLA.





On April 11, 2007, the Company entered into an Agreement in Principle establishing terms for a conditional settlement. Under the terms of the Agreement in Principle, the Company has agreed to fund 50% of the cost, up to \$350,000, to enroll the site in the Illinois Voluntary Site Remediation Program. These funds will be used to prepare environmental reports for approval by the Illinois Environmental Protection Agency. The parties' shared objective is to obtain a "no further remediation determination" from the Illinois EPA based on a commercial / industrial cleanup standard. If the cost to prepare these reports equals or exceeds \$700,000, additional costs above \$700,000 (\$350,000 per party) will be borne 100% by the Water District.

If a remediation plan is required based on the site assessment, the Company has also agreed to fund 50% of the cost to implement the remediation plan, up to a maximum of \$1 million. If the cost to implement the plan is projected to exceed \$2 million, then the Water District will have the option to terminate the agreement and resume the litigation. The Water District will have to choose whether to accept or reject the \$1 million funding commitment from the Company before accepting any payments from the Company for implementation of the remediation plan. The Company does not believe that it can determine whether any cleanup is required or if any final cleanup cost is likely to exceed \$2 million until additional data has been collected and analyzed in connection with the environmental reports. If the Water District elects to accept the maximum funding commitment, the Company has also agreed to remove certain piping and other equipment from one of the parcels. The cost to remove the piping is estimated to be between \$35,000 and \$60,000.

Although the boards of both the Water District and the Company have approved the Agreement in Principle, the agreement of the parties must be embodied in a formal settlement agreement. The parties have been working since April 11, 2007 but have not yet reached a final agreement.

The Company has recorded a liability for \$350,000 related to the Water District claim in recognition of its currently known and estimable funding commitment under the Agreement in Principle. In the event that the Water District rejects the funding commitment described above, the potential claim could exceed the amount of the previous default judgment. As neither a site evaluation nor a remediation plan has been developed, the Company is unable to make a reasonable estimate of the amount or range of further loss, if any, that could result. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

In September 2008, the United States Environmental Protection Agency (EPA) notified the Company of a claim against the Company as a potentially responsible party related to a Superfund site in Texas City, Texas. This matter pertains to galvanizing facilities of the Company's subsidiary and their disposal of waste handled by their supplier in the early 1980's. The EPA offered the Company a special de minimis party settlement to resolve potential liability that the Company and its subsidiaries may have under CERCLA at this Site. The Company has accrued the \$112,145 de minimis settlement amount during the third quarter of 2008 and anticipates that the EPA's offer will be accepted on or before the deadline of December 30, 2008.

NAGC was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was one of approximately 60 potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co., an entity unrelated to NAGC. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to a proposed work plan submitted in August 2000 by a group of the PRPs or suggest any other course of action, and there has been no activity in regards to this issue since 2001. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown, and in addition, the allocation of potential loss between the 60 PRPs is unknown and not reasonably estimable. Therefore, the Company has no basis for determining potential exposure and estimated remediation costs at this time and no liability has been accrued.



Item 1A. Risk Factors.

There are no material changes from risk factors as previously disclosed in the Company's Annual Report on Form 10-K filed on March 7, 2008.

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

Issuer Purchases of Equity Securities

Period (from/to)	Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
July 1, 2008 - July 30, 2008	37,219	\$ 5.78	693,817	\$ 744,278
Sept. 1, 2008 - Sept. 30, 2008	266,667	\$ 5.82	960,484	\$ 2,191,395

In August 1998, the Board of Directors authorized \$1,000,000 for a share repurchase program for shares to be purchased in private or open market transactions. In March 2008, the Board of Directors authorized the company to buy back an additional \$2,000,000 of its common stock, subject to market conditions. The company has completed the August 1998 and March 2008 share repurchase programs. In August 2008, the Board of Directors authorized the company to buy back an additional \$3,000,000 of its common stock, subject to market conditions. Unless terminated earlier by resolution of the Board of Directors, the program will expire when the Company has purchased shares with an aggregate purchase price of no more than the \$2,191,395 remaining under the program at September 30, 2008. The shares and per share amounts for all periods have been adjusted to reflect the Company's four-for-three stock split effected in the form of a stock dividend on September 14, 2008.

Item 3. Defaults Upon Senior Securities – Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders – Not applicable.

Item 5. Other Information.

Item 6. Exhibits

No. Description

3.1 The Company's Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (Reg. No. 333-4937) filed with the Commission on June 7, 1996).

3.2 The Company's Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated March 31, 1996).

15 Awareness Letter of Deloitte & Touche LLP.



31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

#### SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

NORTH AMERICAN GALVANIZING & COATINGS, INC.

(Registrant)

By: /s/ Beth B. Hood  
Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 20, 2008