NORTH AMERICAN GALVANIZING & COATINGS INC
Form 10-K
February 20, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________.

COMMISSION FILE NUMBER 1-3920

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

5314 South Yale Avenue, Suite 1000, Tulsa, Oklahoma 74135
(Address of principal executive offices)(Zip Code)

(918) 494-0964
(Registrant’s telephone number, including area code)

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

TITLE OF EACH CLASS   NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, $0.10 par value NASDAQ Stock Market

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

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

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

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

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

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).

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

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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2008 was approximately $81.8 million. As of January 29, 2009 there were 16,240,651 shares of North American Galvanizing & Coatings, Inc. Common Stock, $0.10 par value, outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this report are incorporated by reference in Part III.

NORTH AMERICAN GALVANIZING & COATINGS, INC.

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2008

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FORWARD LOOKING STATEMENTS OR INFORMATION

Certain statements in this Annual Report on Form 10-K, 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 (the “Exchange Act”). Such statements are typically punctuated by words or phrases such as “anticipate,” “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-K, 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, access to capital, the cost of natural gas, and changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company’s reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

The Company's corporate headquarters are located in Tulsa, Oklahoma. As used in this report, except where otherwise stated or indicated by the context, "North American Galvanizing," the "Company" and the "Registrant" means North American Galvanizing & Coatings, Inc. and its consolidated subsidiary. At the Company's Annual Meeting held May 14, 2003, stockholders approved an amendment of the Company's certificate of incorporation to change the Company's name from Kinark Corporation to North American Galvanizing & Coatings, Inc., effective July 1, 2003. The former Kinark Corporation was incorporated under the laws of the State of Delaware in January 1955.

North American Galvanizing is a manufacturing services holding company currently conducting business in galvanizing and coatings through its wholly-owned subsidiary, North American Galvanizing Company and its wholly-owned subsidiaries ("NAGC").

In the third quarter of 2002, at certain of its plants, NAGC introduced INFRASHIELDsm coating, a specialty multi-part polymer coating system designed to be applied over hot dip galvanized material. The resultant superior corrosion protection offered by combining cathodic protection through the hot dip galvanizing process with a non-conductive coating is applicable to many environments that have unique corrosion issues.

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, the Statements of Beneficial Ownership of Securities on Forms 3, 4 and 5 for Directors and Officers of the Company and all amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge at the Securities and Exchange Commission ("SEC") website at www.sec.gov. The Company's website at www.nagalv.com contains a link to the SEC website. The Company has also posted on the website its (1) Corporate Governance Guidelines, (2) Code of Business Conduct and Ethics, and (3) the charters for the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee.

Galvanizing

The Company conducts a service, galvanizing and coating operations, through its NAGC subsidiary. NAGC is principally engaged in hot dip galvanizing of metal products and components fabricated and owned by its customers. All of NAGC's revenue is generated from the value-added galvanizing and coating of customer-owned products. NAGC galvanizes iron and steel products by immersing them in molten zinc. This bonding process produces an alloyed metal surface that provides an effective barrier ("cathodic protection") against oxidation and corrosion from exposure to the elements, for up to 50 years. Additional coating services provided by NAGC include sandblasting, quenching, metalizing (flame sprayed), centrifuge spinner galvanizing, Corrocote Classic II painting and INFRASHIELDsm Coating.

Plants

NAGC operates ten galvanizing plants in seven states. These strategically located plants enable NAGC to compete effectively by providing galvanizing to manufacturers representing a broad range of basic industries throughout the mid and south-central United States, and beyond. Its galvanizing plants are located in Tulsa, Oklahoma; Kansas City, Missouri; St. Louis, Missouri; Nashville, Tennessee; Louisville, Kentucky; Denver, Colorado; Canton, Ohio; Hurst, Texas and Houston, Texas.

NAGC is constructing a new hot dip galvanizing plant in Benwood, West Virginia. The new operation, which is expected to be operational in late April 2009, will utilize a 30 foot kettle and becomes the Company's eleventh hot dip galvanizing plant.

In January 2008, NAGC opened the Technical Center located in Tulsa, Oklahoma. The Technical Center houses the Company's engineering department and offers customers expanded technical service and guidance on their product design and performance criteria as they pertain to hot dip galvanizing. In addition, the Technical Center is focused on internal Company support activities and projects to enhance plant operating efficiencies, reduce energy usage and improve product quality.

Raw Material

Zinc, the primary raw material and largest cost component in the Company's galvanizing process, is the fourth most widely used metal in the world. Its resistance to non-acidic atmospheric corrosion means that zinc is instrumental in prolonging the life of buildings, vehicles, ships and steel goods and structures of every kind. Accordingly, galvanizing accounts for more than half of all present day applications of zinc. During 2007 and 2008, there were no major supply disruptions in the zinc market.

Over the past several years, the market price of zinc, as quoted on the London Metal Exchange ("LME"), has been volatile. During 2006, the LME spot price of zinc was as high as $2.10 per pound and as low as $0.87 per pound. During 2007, the LME spot price of zinc was as high as $1.93 per pound and as low as $1.00 per pound. During 2008, the LME spot price of zinc was as high as $1.28 per pound and as low as $0.47 per pound, ending the year at $0.51.

Customers

NAGC's ten largest customers, on a combined basis, accounted for approximately 32% of the Company's consolidated sales in 2008, compared with 37% in 2007. No single customer comprised 10% or more of the Company's consolidated net sales in 2008, 2007 or 2006. The backlog of orders at NAGC is generally nominal due to the short turn-around time requirement of customers, which is generally demanded in the galvanizing industry.

Principal Markets

The galvanizing process provides effective corrosion protection of fabricated steel, which is used in numerous markets such as petrochemical, highway and transportation, energy, utilities, communications, irrigation, pulp and paper, waste water treatment, food processing, recreation and the manufacture of original equipment.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level. In 2008, NAGC galvanized steel products for approximately 1,800 customers nationwide.

All of the Company's sales are generated through domestic 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 is highly competitive. NAGC competes with other publicly and privately owned independent galvanizing companies, captive galvanizing facilities operated by manufacturers, and alternative forms of corrosion protection such as paint. The type and number of competitors vary throughout the geographic areas in which NAGC does business. Competition is driven primarily by price, rapid turn-around service time, and the quality of the finished galvanized product. Management believes that the broad geographic disbursement of its galvanizing plants and the reliable quality of its service enables NAGC to compete on a favorable basis. The Company continues to develop and implement operating and market strategies to maintain its competitive position and to develop new markets. These strategies are demonstrated by the purchase of the hot-dip galvanizing assets of a galvanizing facility in Canton, Ohio (2005) and the construction of the new operation in Benwood, West Virginia which is expected to be operational in late April 2009, as well as expanded service capabilities at its existing plants.

The Company's management does not generally consider the Company's business to be seasonal due to the breadth and diversity of markets served. NAGC's average galvanizing volume per operating day was approximately the same for each calendar quarter in 2008 and 2007. Sales volumes typically are lower in the fourth quarter by approximately 3% due to a higher number of non-operating days.

Environmental

The Company's facilities are subject to environmental legislation and regulation affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately $1.9 million in both 2008 and 2007 and $1.4 million in 2006 for the disposal and recycling of wastes generated by the galvanizing operations. The Company settled the Lake River litigation for $1.4 million on December 17, 2008. (See item 3. LEGAL PROCEEDINGS). The majority of the $1.4 million payment ($1.05 million; $0.7 million, net of tax) was included in discontinued operations in the fourth quarter of 2008. The remaining $0.35 million was recorded in cost of sales in the first quarter of 2007 and is included in the $1.9 million in environmental costs for 2007 mentioned above.

In September 2008, the United States Environmental Protection Agency (the "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 a Company subsidiary and its disposal of waste, which was 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 the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") at this site. The Company accrued the $112,145 de minimis settlement amount during the third quarter of 2008 and accepted the EPA's offer before the deadline of December 30, 2008.

Employee Relations

NAGC's labor agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy Allied Industrial and Service Workers International Union covering production workers at its Tulsa, Oklahoma galvanizing plants expired during 2006. The union ratified a two-year extension of the expiring agreement, with minor modifications, extending the expiration date of the agreement to October 31, 2008. The extension of the agreement brought union employee contributions to the group health plan more closely in line with contributions made by non-union employees of the Company. In 2008, after several of the employees who were covered by the agreement petitioned the National Labor Relations Board for a decertification vote, a decertification election was scheduled to be held on September 25, 2008. However, on September 22, 2008, the union filed a "disclaimer of interest" with the National Labor Relations Board, which denotes that the union is withdrawing its representation of the Company's Tulsa, Oklahoma employees. Thus, the union has been decertified and the employees covered by that agreement are no longer represented by the union.

The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy Allied Industrial and Service Workers International Union represented the labor force at the galvanizing facility purchased in Canton, Ohio in February 2005. At the time of purchase, NAGalv-Ohio, Inc., the Company's wholly-owned subsidiary, did not assume the existing labor agreement and implemented wage and benefit programs similar to those at the Company's other galvanizing facilities. In the fourth quarter of 2006, negotiations with the union were finalized. The union ratified an agreement effective from November 13, 2006 to November 12, 2009. The agreement contains wage and benefit programs similar to those implemented in February 2005.

Nationwide, the Company had approximately 400 employees in 2008 and 2007.

ITEM 1A. RISK FACTORS

In addition to important factors described elsewhere in this report, North American Galvanizing cautions current and potential investors that the following risk factors, among others, sometimes have affected, and in the future could affect, the Company's actual results and could cause such results during fiscal 2009, and beyond, to differ materially from those expressed in any forward-looking statements made by or on behalf of North American Galvanizing. If any of the following risks actually occurs, the Company's business, financial condition or results of operations could be materially adversely affected and you may lose all of your investment.

Galvanizing is a business sensitive to economic downturns, which could cause the Company's revenues to decrease. NAGC is principally engaged in hot dip galvanizing of metal products and components fabricated by its customers. All of the Company's revenue is generated from the value-added galvanizing and coating of its customer's products. The galvanizing process provides effective corrosion protection of fabricated steel, which is used in numerous markets such as petrochemical, highway and transportation, energy, utilities, communications, irrigation, pulp and paper, waste water treatment, food processing, recreation and the manufacture of original equipment. The demand for these products and, in turn, for the Company's galvanizing, is dependent on the general economy, the industries listed, and other factors affecting domestic goods activity. If there is a reduction in demand, there could be a material adverse effect on price levels, the quantity of galvanizing services provided by the Company and the Company's revenues.

The price volatility and availability of raw material and natural gas could reduce the Company's profits. Purchased zinc and natural gas, combined, represent the largest portion of cost of goods sold. The price and availability of zinc and natural gas that is used in the galvanizing process is highly competitive and cyclical. The following factors, most of which are beyond the Company's control, affect the price of zinc and natural gas:

- supply and demand factors;
- freight costs and transportation availability;
- inventory levels;
- trade duties and taxes; and
- labor disputes.

In response to increase in costs, the Company may seek to maintain its profit margin by attempting to increase the price of its services, but may not be successful in passing these price increases through to its customers.

The Company's business, operating results and financial condition could be impacted by future acquisitions or by a lack of potential acquisition candidates. From time to time, the Company evaluates potential acquisition opportunities to support and strengthen its business. NAGC may not be able to locate suitable acquisition candidates, acquire candidates on acceptable terms or at all or integrate acquired businesses successfully. In addition, NAGC may be required to incur additional debt and contingent liabilities, or to issue shares of its common stock in order to consummate future acquisitions. Such issuances might have a dilutive effect on current equity holders.

Limited access to capital for internal growth and strategic acquisitions could adversely affect the Company's business, operating results and financial condition. The Company's operating and market strategies to maintain competitive position and to develop new markets include investments in internal growth and strategic acquisitions. If the Company is unable to access capital through its current credit facility or raise capital, on favorable terms or at all, the Company may not be able to invest in internal growth and strategic acquisitions, which could adversely affect the Company's business, operating results and financial condition.

Difficulties in integrating potential acquisitions could adversely affect the Company's business, operating results and financial condition. The process of integrating acquired businesses effectively involves the following risks:

- assimilating operations and products may be unexpectedly difficult;
- management's attention may be diverted from other business concerns;
- the Company may enter markets in which it has limited or no direct experience; and
- the Company may lose key employees of an acquired business.

Difficulties in integrating potential acquisitions could adversely affect the Company's business operating results and financial condition.

The Company may not have sufficient management resources if there is turnover in key personnel. Providing a competitive service acceptable in quality and price requires a management team that is technically skilled in providing galvanizing services. In past years, the Company has downsized administrative and management positions as a result of cost-cutting initiatives. If there is turnover in key personnel, the Company may not have sufficient management resources. Lack of management resources could impact the Company's ability to operate and compete in the galvanizing industry.

The addition of hot dip galvanizing capacity could reduce demand for galvanizing services and adversely affect revenues. Galvanizing is a highly competitive business with relatively low barriers to entry. NAGC competes with other galvanizing companies, captive galvanizing facilities operated by manufacturers and alternate forms of corrosion protection such as paint. Excessive capacity in hot dip galvanizing could have a material adverse effect on price levels and the quantity of galvanized services provided by the Company.

Various governmental regulations and environmental risks applicable to the galvanizing business may require the Company to take actions which will adversely affect its results of operations. The Company's business is subject to numerous federal, state, provincial, local and foreign laws and regulations, including regulations with respect to air emissions, storm water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Although NAGC believes it is in substantial compliance with all applicable laws and regulations, legal requirements are frequently changed and subject to interpretation, and the presently unpredictable ultimate cost of compliance with these requirements could affect operations. The Company may be required to make significant expenditures to comply with governmental laws and regulations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, could have a material adverse effect on the results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

No unresolved staff comments were open as of the date of this report, February 20, 2009.

ITEM 2. PROPERTIES

NAGC operates ten hot dip galvanizing plants located in Ohio, Oklahoma, Missouri, Texas, Colorado, Tennessee and Kentucky. The Company is constructing a new plant in Benwood, West Virginia which is expected to be operational in late April 2009. One of the Company's plants, located in Kansas City, Missouri is leased under terms which give NAGC the option to extend the lease for up to 15 years. NAGC's galvanizing plants average 20,000 square feet in size, with the largest approximately 55,000 square feet, and it operates zinc kettles ranging in length from 16 to 62 feet. The Company owns all of its galvanizing plants, except for the Kansas City plant noted above. All of the Company's owned galvanizing plants are pledged as collateral to a bank pursuant to a credit agreement scheduled to expire May 16, 2012, under which the Company is provided a $25 million revolving credit facility with future increases of up to an aggregate principal amount of $10 million at the discretion of the lender.

The Company's headquarters office is located in Tulsa, Oklahoma, in approximately 4,600 square feet of office space leased through February 2012.

ITEM 3. LEGAL PROCEEDINGS

On December 17, 2008, the board of directors of North American Galvanizing & Coatings, Inc. approved a Mutual Release of Claims and Settlement Agreement, (the "Settlement Agreement") with the Metropolitan Water Reclamation District of Greater Chicago ("MWRD").

The MWRD, the owner of the former Lake River Terminals Site (the "Site"), filed a lawsuit in the United States District Court for the Northern District of Illinois against NAGC and others (the "case"). NAGC is a former parent company of the Lake River Corporation. The Lake River Corporation occupied and conducted business at the Site for approximately 50 years under the terms of five (5) lease agreements and a general permit with MWRD, which have since been terminated. The MWRD alleged in its lawsuit that NAGC was either directly or indirectly liable for certain cleanup costs, including the removal of certain buildings and other structures and the remediation of environmental conditions at the Site. Although NAGC denied that it was directly or indirectly liable for any such costs, both parties agreed that it would be mutually advantageous and cost-effective to settle the matter without further litigation.

According to the terms of the Settlement Agreement, in December, 2008 NAGC paid MWRD $1.4 million. In consideration of the payment, MWRD released NAGC and its affiliates from any and all claims which are, were, or could have been included in the case, and from any and all payment obligations to MWRD, whether pursuant to CERCLA, other law, contract, or tort, arising from the leases or on account of the condition of the Site. In consideration of the above, NAGC released MWRD and its affiliates from all claims of NAGC arising from the leases or on account of the condition of the Site, and from any and all claims that could have been asserted against MWRD or its affiliates as counterclaims in the case. In addition, MWRD agreed to indemnify and hold NAGC harmless from any claims against NAGC by third parties for certain claims that arise out of or relate to the subject matter of the case.

The Settlement Agreement relates to NAGC's exit from the chemical storage and related businesses at the Site and is a cost of the sale in 2000 of the Company's former subsidiary, Lake River Corporation. In March of 2007, NAGC recorded a liability for $350,000 related to the MWRD claim. The additional liability of $1.05 million was recorded by NAGC during the fourth quarter of 2008 in discontinued operations ($0.7 million, net of income taxes). The Company recorded this additional charge in discontinued operations in 2008 to be consistent with the similar classification presented when the Company disposed of Lake River.

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In September 2008, the 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 a Company subsidiary and its disposal of waste, which was 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 accrued the $112,145 de minimis settlement amount during the third quarter of 2008 and accepted the EPA's offer 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 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 IEPA notice includes NACG as one of the organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. 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 potentially responsible parties 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 potentially responsible parties 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.

North American Galvanizing & Coatings, Inc. and its subsidiary are parties to a number of other lawsuits, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Information

The Company's common stock traded under the symbol "NGA" on the American Stock Exchange through August 1, 2007 and began trading under the same three-digit symbol on the NASDAQ Stock Market on August 2, 2007. The Company does not expect to pay a dividend on its common stock and has not done so in the past. The Company expects to continue that policy in order to reinvest earnings to support and expand its business operations. The Company's board of directors may review the dividend policy in the future, recognizing that dividends may be a desirable form of return on the investment made by many of its stockholders. Stockholders of record at February 18, 2009 numbered approximately 1,203.

The board of directors declared a four-for-three stock split effected by a stock dividend for all stockholders 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 the Company's share-based compensation plans, were

proportionately increased in accordance with the terms of those respective agreements and plans.

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Quarterly Stock Prices

	First	Second	Third	Fourth
2007				
High	$ 3.00	$ 8.98	$ 7.64	$ 7.22
Low	$ 2.22	$ 2.51	$ 3.75	$ 4.43
2008				
High	$ 4.95	$ 6.95	$ 8.66	$ 5.41
Low	$ 3.20	$ 3.88	$ 4.21	$ 2.36

In August 1998, the Board of Directors authorized the Company to repurchase up to $1,000,000 of its common stock 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 $474,374 remaining under the program at December 31, 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.

Issuer Purchases of Equity Securities

Period (from/to)	Total Number of 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
March 1, 2008 – March 31, 2008	256,391	$ 4.25	560,483	$ 1,518,708
June 1, 2008 – June 30, 2008	96,115	$ 5.82	656,598	$ 959,529
July 1, 2008 – July 31, 2008	37,219	$ 5.78	693,817	$ 744,278
Sept. 1, 2008 – Sept. 30, 2008	240,433	$ 6.46	934,250	$ 2,191,395
Oct. 1, 2008 – Oct. 31, 2008	60,000	$ 3.50	994,250	$ 1,981,152
Nov. 1, 2008 – Nov. 30, 2008	69,643	$ 2.98	1,063,893	$ 1,773,296
Dec. 1, 2008 – Dec. 31, 2008	357,834	$ 3.63	1,421,727	$ 474,374
Total	1,117,635	$ 4.59	1,421,727	$ 474,374

The information required by this item concerning securities authorized for issuance under equity compensation plans appears under the heading "Equity Compensation Plan Information in the Company's Proxy Statement (the "2009 Proxy Statement") or the Company's Annual Report to Stockholders (the "2008 Annual Report") for its annual meeting of stockholders to be held on May 29, 2009 and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for years 2004 through 2008 are presented on page 16 of this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The index to Management's Discussion and Analysis of Financial Condition and Results of Operations is presented on page 18 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management's discussion of quantitative and qualitative disclosures about market risk is presented on page FS-11 and FS-12.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to Financial Statements and Supplementary Data is presented on page 13 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"); and whether any change has occurred in the Company's internal control over financial reporting pursuant to Exchange Act Rules 13a-15(d) and 15d-15(d). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective.

(b) Management's report on internal control over financial reporting.

Management's report on internal control over financial reporting, which appears on page FS-13 of this Annual Report, is incorporated herein by reference.

(c) Changes in internal control over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred in the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the headings “Directors and Executive Officers,” and “Company Information Available on Website” in the 2008 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2008 Proxy Statement under the headings “Compensation of Directors and Executive Officers” and “Compensation Plans” and is incorporated herein by reference. Information regarding the Company’s stock option plans appears herein on pages FS-21 to FS-24, Footnotes to Consolidated Financial Statements.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item concerning security ownership of certain beneficial owners and management appears in the 2008 Proxy Statement under the heading “Security Ownership of Principal Stockholders and Management” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item concerning certain relationships and related transactions and director independence appears in the 2008 Proxy Statement under the heading “Certain Relationships and Related Transactions and Director Independence” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated herein by reference from the 2008 Proxy Statement under the caption “Independent Public Accountants.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(1) FINANCIAL STATEMENTS	Page
Reports of Independent Registered Public Accounting Firm	FS-14 to FS-15
Consolidated Balance Sheets at December 31, 2008 and 2007	FS-16
Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2008, 2007 and 2006	FS-17
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	FS-18
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2008, 2007 and 2006	FS-19
Notes to Consolidated Financial Statements	FS-20 to FS-31
(2) FINANCIAL STATEMENT SCHEDULES	
Schedule II – Valuation and Qualifying Accounts	15

All schedules omitted are inapplicable or the information required is included in either the consolidated financial statements or the related notes to the consolidated financial statements.

Selected Financial Data	16

(3) EXHIBITS

The Exhibits filed with or incorporated by reference into this report are listed in the following Index to Exhibits.

EXHIBIT INDEX

No.	Description
3.1	Restated Certificate of Incorporation of Kinark Corporation, as amended on June 6, 1996 (incorporated by reference to Exhibit 3.1 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3, Registration No. 333-4937, filed with the Commission on June 7, 1996).
3.2	Amended and Restated Bylaws of Kinark Corporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated March 31, 1996)
10.1	Credit Agreement, dated May 17, 2007, between North American Galvanizing & Coatings, Inc., a Delaware corporation, and Bank of America, N.A., a national banking association.

10.2**	2004 Incentive Stock Plan, as amended (incorporated by reference to the Company's Form 8-K filed with the Commission on October 3, 2006).

10.2.1** Form of Stock Option Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on March 18, 2005).

10.2.2** Schedule A to Stock Option Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on March 18, 2005).

10.3** Director Stock Unit Program, as amended (incorporated by reference to the Company's Form 8-K filed with the Commission on February 17, 2006).

21* Subsidiaries of the Registrant.

23* Consent of Independent Registered Public Accounting Firm.

24.1*** Power of attorney from Directors: Linwood J. Bundy, Ronald J. Evans, Janice K. Henry, Gilbert L. Klemann, II, Patrick J. Lynch, Joseph J. Morrow and John H. Sununu.

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.

* Filed Herewith.
** Indicates management contract or compensation plan.
*** Included on the signature page of this report.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts receivable

Years Ended December 31, 2008, 2007 and 2006:

Description	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
2008	$ 154,000	$ 37,000	$ 89,000	$ 102,000
2007	$ 197,000	$ 15,000	$ 58,000	$ 154,000
2006	$ 124,000	$ 100,000	$ 27,000	$ 197,000

SELECTED FINANCIAL DATA

The summary financial data provided for the five years ended December 31, 2004 to December 31, 2008 was derived from the audited Consolidated Financial Statements.

(Dollars in thousands except per share amounts)

For The Years Ended December 31,	2008	2007	2006	2005	2004
Sales	$ 86,134	$ 88,396	$ 74,054	$ 47,870	$ 35,822
Operating Income	$ 19,347	$ 15,405	$ 8,359	$ 2,173	$ 1,390
Percent of sales	22.5%	17.4%	11.3%	4.5%	3.9%
Income from Continuing Operations	$ 12,532	$ 9,232	$ 4,535	$ 644	$ 403
Loss from Discontinued Operations, net of income taxes	$ (662)				
Net Income (Loss)	$ 11,870	$ 9,232	$ 4,535	$ 644	$ 403
Basic Earnings per common share (a)	$ 0.73	$ 0.56	$ 0.30	$ 0.05	$ 0.03
Diluted Earnings per common share (a)	$ 0.70	$ 0.54	$ 0.29	$ 0.04	$ 0.02
Capital Expenditures	$ 3,228	$ 4,430	$ 1,414	$ 1,016	$ 1,230
Depreciation and Amortization	$ 3,529	$ 3,519	$ 2,975	$ 2,532	$ 2,701
Weighted Average Shares Outstanding (a) (b)	16,876,559	17,027,847	15,563,255	15,216,568	14,982,391

At December 31,	2008	2007	2006	2005	2004
Working Capital	$ 17,689	$ 10,664	$ 9,296	$ 7,026	$ 8,621
Total Assets	$ 54,772	$ 47,572	$ 48,211	$ 41,055	$ 37,114
Long-Term Obligations	$ —	$ 14	$ 7,753	$ 12,275	$ 14,257
Stockholders' Equity	$ 44,390	$ 36,029	$ 25,566	$ 19,298	$ 18,309

Book Value Per Share (a)	$ 2.69	$ 2.19	$ 1.58	$ 1.41	$ 1.35
Common Shares Outstanding (a)	16,507,813	16,434,648	16,223,344	13,693,896	13,594,024

(a) All periods adjusted for four-for-three stock split on September 14, 2008.
(b) Weighted average shares outstanding include the dilutive effect of stock options and warrants, if applicable.

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SIGNATURES

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

NORTH AMERICAN GALVANIZING &
COATINGS, INC.
(Registrant)

Date: February 20, 2009

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below on February 20, 2009, by the following persons on behalf of the Registrant and in the capacities indicated.

/s/ Joseph J. Morrow*
Joseph J. Morrow, Non-Executive Chairman of the Board

/s/ Patrick J. Lynch*
Patrick J. Lynch, Director

/s/ Ronald J. Evans*
Ronald J. Evans, President and Chief Executive Officer (Principal Executive Officer), and Director

/s/ Gilbert L. Klemann, II*
Gilbert L. Klemann, II. Director

/s/ Beth B. Hood
Beth B. Hood, Vice President, Chief Financial Officer (Principal Financial and Accounting Officer), and Secretary

/s/ John H. Sununu*
John H. Sununu, Director

/s/ Linwood J. Bundy*
Linwood J. Bundy, Director

/s/ Janice K. Henry*
Janice K. Henry, Director

*Beth B. Hood, by signing her name hereto, does hereby sign this Annual Report on Form 10-K on behalf of each of the directors and officers of the Registrant after whose typed names asterisks appear pursuant to powers of attorney duly executed by such directors and officers and filed with the Securities and Exchange Commission as exhibits to this report.

By: /s/ Beth B. Hood
Beth B. Hood, Attorney-in-fact

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INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS, CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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 and owned 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.

Overview

The Company's galvanizing plants offer a broad line of services, including centrifuge galvanizing for small threaded products, sandblasting, chromate quenching, polymeric coatings, and its proprietary INFRASHIELDsm Coating Application Systems, which provides polyurethane protective linings and coatings over galvanized surfaces. The Company's structural 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 ten facilities located in Colorado, Kentucky, Missouri, Ohio, Oklahoma, Tennessee and Texas. In addition, the Company is constructing a new hot dip galvanizing plant in Benwood, West Virginia which is expected to be operational in late April, 2009. 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 2008, the Company galvanized steel products for approximately 1,800 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, including irrigation systems;
- recreation, including boat trailers, marine docks, stadium scaffolds;
- bridge and pedestrian handrail; and
- 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 large and small fabricators 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 has a line of credit available, which is secured by its underlying accounts receivable and zinc inventory, to facilitate working capital needs.

Each of the Company's galvanizing plants operates 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, implement technical innovations to improve production efficiencies and 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 designed to increase industry awareness of the proven and unique benefits of galvanizing for metals corrosion protection. Each of the Company's independently operated 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 each 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

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fabricators. In general, growth in the commercial and 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 and 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.

Key Developments

The Company has reported a number of developments supporting its strategic program to reposition its galvanizing business in the national market.

NAGC is constructing a new hot dip galvanizing plant in Benwood, West Virginia. The new operation, which is expected to be operational in late April 2009, will utilize a 30 foot kettle and becomes the Company's eleventh hot dip galvanizing plant.

In January 2008, NAGC opened the Technical Center located in Tulsa, Oklahoma. The Technical Center houses the Company's engineering department and offers customers expanded technical service and guidance on their product design and performance criteria as they pertain to hot dip galvanizing. In addition, the Technical Center is focused on internal Company support activities and projects to enhance plant operating efficiencies, reduce energy usage and improve product quality.

On February 28, 2005, NAGalv-Ohio, Inc., a subsidiary of North American Galvanizing Company, purchased the hot dip galvanizing assets of a galvanizing facility located in Canton, Ohio. The transaction was structured as an asset purchase, pursuant to an Asset Purchase Agreement dated February 28, 2005 by and between NAGalv-Ohio, Inc. and the privately owned Gregory Industries, Inc. for all of the plant, property, and equipment of Gregory Industries' after-fabrication hot dip galvanizing operation.

This strategic expansion provided NAGC with an important and established customer base of major fabricators serving industrial, original equipment manufacturer and highway markets as well as residential and commercial markets for lighting poles. In July 2007, the Company replaced the existing kettle in Canton with a new 51 foot kettle, which is designed to handle large steel structures, such as bridge beams, utility poles and other steel structural components that require galvanizing for extended-life corrosion protection.

Results of Operations

The following table shows the Company's results of operations:

	(Dollars in thousands) Year Ended December 31,					
	2008		2007		2006	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Sales	$ 86,134	100.0%	$ 88,396	100.0%	$ 74,054	100.0%
Cost of sales	53,219	61.8%	60,329	68.3%	54,662	73.8%
Selling, general and administrative expenses	10,039	11.6%	9,143	10.4%	8,058	10.9%
Depreciation and Amortization	3,529	4.1%	3,519	4.0%	2,975	4.0%
Operating income	19,347	22.5%	15,405	17.3%	8,359	11.3%
Interest expense	–	–	553	0.6%	867	1.2%
Interest income and other	247	.3%	(81)	(0.1)%	(62)	(0.1)%
Income from operations before income taxes	19,594	22.8%	14,933	16.8%	7,554	10.2%
Income tax expense	7,062	8.2%	5,701	6.4%	3,019	4.1%
Income from operations	12,532	14.6%	9,232	10.4%	4,535	6.1%
Loss from discontinued Operations (net of tax)	(662)	(0.8)%	–	–	–	–
Net income	$ 11,870	13.8%	$ 9,232	10.4%	$ 4,535	6.1%

2008 COMPARED TO 2007

Sales-- Sales volumes for the year ended December 31, 2008 increased 7% over the prior year due to an overall increase in demand from existing customers and incremental project work. The average selling price for 2008 was 9% lower than the average selling price for 2007, as a result of decreased zinc costs. The decrease in 2008 revenues of 2.6% was due to a combination of an increase in volume and a lower average sales price compared to 2007. Sales prices have decreased related to decreases in zinc costs.

Cost of Sales-- The $7.1 million decrease in cost of goods sold from 2007 to 2008 was mainly to due to a decrease in zinc costs of 39.3%. Excluding the effect of increased volumes, other plant overhead costs increased $1.3 million, or 17% from 2007 to 2008, due in part to increases in repairs and maintenance spending and supplies. Excluding the effect of increased volumes, the Company's labor costs increased $0.6 million, or 3%, from 2007 to 2008 mainly due to higher wages. Excluding the effect of increased volume, utilities costs increased $0.4 million, or 10%, for the year ended December 31, 2008, compared to the prior year due in large part to higher gas prices.

Selling, General and Administrative (SG&A) Expenses-- SG&A increased $0.9 million, or 9.8%, in 2008 compared to 2007. The increase was due to increases in personnel costs, primarily in the form of non-cash share-based compensation.

Operating Income-- For the year ended December 31, 2008, operating income was $19.3 million, compared to $15.4 million for 2007. The increase in operating income is due to the factors described above.

Income Taxes-- The Company's effective income tax rates for 2008 and 2007 were 36.0% and 38.2%, respectively. The effective tax rates differ from the federal statutory rate primarily due to state income taxes and adjustments to previous tax estimates based on actual tax returns filed.

Loss from Discontinued Operations, net of income taxes-- For the year ended December 31, 2008, the loss from discontinued operations of $0.7 million is due to the final settlement with Metropolitan Water District of Greater Chicago, related to the Company's former subsidiary, Lake River Corporation (See item 3. LEGAL PROCEEDINGS and Note 6 to the consolidated financial statements).

Net Income-- For 2008, the Company reported net income of $11.9 million compared to net income of $9.2 million for 2007. The increase in net income is due to the factors described above.

2007 COMPARED TO 2006

Sales-- Sales for the year ended December 31, 2007 increased 19.4% over the prior year due to increased sales prices in response to increases in zinc costs. The average selling price for 2007 was 24.2% higher than the average selling price for 2006. Although the price of zinc and galvanizing declined in the second half of 2007, the Company's ability to capitalize on high quality, timely customer service and the generally high demand for galvanizing services provided for an increase in sales prices.

Sales volumes for 2007 were 3.9% lower than 2006. Lower volumes are a result of the Company's review and acceptance of customer orders only at adequate margin levels and the scheduled shutdown of the Canton, Ohio plant to replace the kettle and furnace during the month of July 2007.

Cost of Sales-- The increase in cost of goods sold from 2006 to 2007 was mainly due to an increase in zinc costs of 19.1%. Although the average LME zinc cost for both 2007 and 2006 was the same, the Company's zinc cost for the first half of 2006 was lower than the market at that time due to the favorable impact from forward purchases of zinc. The Company's labor costs increased 6.3% from 2006 to 2007 due to wage and incentive pay increases and

increased overtime pay. Other plant overhead costs increased 11% from 2006 to 2007. While total cost of sales increased year-over-year, as a percentage of sales, total cost of sales decreased compared to 2006 due primarily to the decline in the cost of zinc during the second half of 2007, as discussed in Sales, above.

Selling, General and Administrative (SG&A) Expenses-- SG&A increased $1.1 million, or 13.4%, in 2007 compared to the prior year, but decreased as a percentage of revenues from 10.9% in 2006 to 10.3% in 2007. Increases were due to increases in personnel costs, primarily non-cash share-based compensation, and legal, audit and tax services expenses, including expenses related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Depreciation Expense-- Depreciation expense for 2007 increased $0.6 million over the prior year, of which $0.4 million was due to a 2006 change in depreciation method for two newer galvanizing facilities. 2007 reflects a full year under the new method, compared to six months under the new method in 2006. The Company previously used the units of production method of depreciation for machinery and equipment at these facilities. Effective July 1, 2006, the Company changed to the straight-line method of depreciation.

Operating Income-- For the year ended December 31, 2007, operating income was $15.4 million, compared to $8.4 million for 2006. The increase in operating income is due to the factors described above.

Income Taxes-- The Company's effective income tax rates for 2007 and 2006 were 38.2% and 40.0%, respectively. The effective tax rates differ from the federal statutory rate primarily due to state income taxes and minor adjustments to previous tax estimates based on actual tax returns filed.

Net Income-- For 2007, the Company reported net income of $9.2 million compared to net income of $4.5 million for 2006. The increase in net income is due to the factors described above.

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 capital spending requirements. During 2008, 2007 and 2006, 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 was $14.2 million in 2008, $14.5 million in 2007 and $6.6 million in 2006. In 2008, cash flow from operating activities reflected higher net income and a $1.9 million cash outflow from other operating assets and liabilities. In 2007, cash flow from operating activities reflected a net cash inflow of $0.8 million from other operating assets and liabilities. In 2006, cash flow from operating activities reflected a net cash outflow of $0.7 million from other operating assets and liabilities.

Capital expenditures for equipment and upgrade of existing galvanizing facilities totaled $3.2 million in 2008, $4.4 million in 2007 and $1.4 million in 2006. The Company continues to have a commitment to invest cash flow in improving plant operations. The Company expects base capital expenditures for 2009 to approximate $6.9 million including $3.3 million for the new plant in Benwood, West Virginia.

In 2008, cash used in financing activities totaled $4.6 million, including purchase of common stock for the treasury of $5.1 million, which was offset by proceeds from exercise of stock options and tax benefits from stock option exercises and Director Stock Units distributed of $0.5 million. Cash used in financing activities for the year ended December 31, 2007 totaled $9.1, including net payments on long-term obligations and bonds of $9.3 million and purchase of common stock for the treasury of $0.2 million, which was offset by proceeds from stock options exercised and tax benefits from stock options exercises of $0.4 million. Cash used in financing activities for the year ended December 31, 2006 totaled $4.5 million primarily due to the payment on long-term obligations of $4.7 million and early redemption of the $1.0 million in subordinated notes payable scheduled to mature in February of 2007, which was offset by $0.8 million received from the exercise of stock options.

On May 17, 2007, the Company entered into a new credit agreement between the Company as borrower and Bank of America, N.A. as administrative agent, swing line lender and letter of credit issuer. The new 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 purpose of the new facility is to refinance a former credit agreement, term debt and bond debt, provide for issuance of standby letters of credit, acquisitions, and for other general corporate purposes.

At December 31, 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 would have had borrowings outstanding under the revolving credit facility at December 31, 2008, the applicable margin would have been 0.75% and the variable interest rate including the applicable margin would have been 1.22%. The credit agreement requires the Company to maintain compliance with covenant limits. If the Company would have had borrowings at year end, all covenant requirements would have been met.

The Company has various commitments primarily related to vehicle and equipment operating leases, capital lease obligations, facilities operating leases and zinc purchase commitments. The Company's off-balance sheet contractual obligations at December 31, 2008, consist of $0.4 million for vehicle and equipment operating leases, $3.7 million for zinc purchase commitments, $1.4 million for long-term operating leases for galvanizing and office facilities and $1.4 million for machinery, equipment and building improvement commitments. The various leases for galvanizing facilities expire through 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.

The Company expects to fund these commitments with cash generated from operations and continuation of existing bank credit agreements as they mature. The Company's contractual obligations and commercial commitments as of December 31, 2008, are as follows (in thousands):

	Total	Less than One Year	1-3 Years	4-5 Years	More than 5 Years
Facilities operating leases	$ 1,423	$ 361	$ 728	$ 207	$ 127
Vehicle and equipment operating leases	366	260	106	–	–
Zinc purchase commitments	3,746	3,746	–	–	–
Other purchase commitments	1,365	1,365	–	–	–
Total contractual cash obligations	$ 6,900	$ 5,732	$ 834	$ 207	$ 127
Other contingent commitment:					
Letters of credit	$ 164	$ 164	$ –	$ –	$ –

The company has no outstanding debt and, therefore, has no committed interest payments. Fees for maintenance of the Company's credit agreement are not significant

Share Repurchase Program

In August 1998, the Board of Directors authorized the Company to repurchase up to $1,000,000 of its common stock 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. 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 $6,000,000. In 2008, the Company repurchased 1,117,635 shares at an average price per share of $4.59, bringing the total number of shares repurchased through December 31, 2008 to 1,421,727 at an average price of $3.89 per share, totaling $5,525,626. The number of shares repurchased and average price was adjusted to reflect the Company's four-for-three stock split effected in the form of a stock dividend on September 14, 2008. In 2008, the stock repurchases had an approximate $.04 per share positive impact on diluted earnings per share.

Environmental Matters

The Company's facilities are subject to environmental legislation and regulation affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately $1.9 million in both 2008 and 2007 and $1.3 million in 2006 for the disposal and recycling of wastes generated by the galvanizing operations. The Company settled the Lake River litigation for $1.4 million on December 17, 2008. (See item 3. LEGAL PROCEEDINGS). The majority of the $1.4 million payment ($1.05 million; $0.7 million, net of tax) was included in discontinued operations in the fourth quarter of 2008. The remaining $0.35 million was recorded in cost of sales in the first quarter of 2007 and is included in the $1.9 million in environmental costs for 2007 mentioned above.

On December 17, 2008, the board of directors of North American Galvanizing & Coatings, Inc. ("NAGC") approved a Mutual Release of Claims and Settlement Agreement, (the "Settlement Agreement") with the Metropolitan Water Reclamation District of Greater Chicago ("MWRD").

The MWRD, the owner of the former Lake River Terminals Site (“Site”), filed a lawsuit in the United States District Court for the Northern District of Illinois against NAGC and others (“case”). NAGC is a former parent company of the Lake River Corporation. The Lake River Corporation occupied and conducted business at the Site for approximately 50 years under the terms of five (5) lease agreements and a General Permit with MWRD, which have sinc