NORTH AMERICAN GALVANIZING & COATINGS INC
Form 10-K
February 14, 2007

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, 2006
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 1-3920

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, $.10 par value	American Stock Exchange

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 [ ] 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 [ ]No [X]

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

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

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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2006 was approximately $27.0 million. As of February 13, 2007 there were 8,111,672 shares of North American Galvanizing & Coatings, Inc. Common Stock, $.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.

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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, 2006

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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. 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-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 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 reports filed with the Securities and Exchange Commission. The Company believes that the important factors set forth in the Company's cautionary statements in Exhibit 99 to this Form 10-K could cause such a material difference to occur and investors are referred to Exhibit 99 for such cautionary statements.

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 ("NAG"). Formed in 1996, NAG merged with Rogers Galvanizing Company ("Rogers") in 1996 and Boyles Galvanizing Company ("Boyles") in 1997, with NAG as the surviving company. Rogers was acquired by the Company in 1996 and Boyles was acquired in 1969.

On February 28, 2005, NAGalv-Ohio, Inc., a Delaware corporation and indirect subsidiary of the Company, purchased the hot-dip galvanizing assets of Gregory Industries, located in Canton, Ohio.

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 Securities Exchange Act of 1934, 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 Company's 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 NAG subsidiary. NAG is principally engaged in hot dip galvanizing of metal products and components fabricated and owned by its customers. All of NAG's revenue is generated from the value-added galvanizing and coating of customer-owned products. NAG 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 NAG include sandblasting, quenching, metalizing (flame sprayed), centrifuge spinner galvanizing, Corrocote Classic II painting and INFRASHIELDsm Coating.

PLANTS

NAG operates 11 galvanizing plants in seven states. These strategically located plants enable NAG 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.

In February 2005, NAG's new indirect subsidiary, NAGalv-Ohio, Inc. purchased the hot-dip galvanizing assets of the galvanizing facility located in Canton, Ohio, listed above. The Canton facility operates two hot-dip galvanizing lines featuring 52-foot and 16-foot kettles to handle a broad range of steel structures.

In June 2003, NAG wrote-off its investment in the Cunningham galvanizing plant located in Houston, Texas as a discontinued operation.

In January 2003, NAG expanded services at its Nashville, Tennessee facility with the installation of a centrifuge spinner line to galvanize small product and threaded materials.

In the fourth quarter of 2002, NAG began operations at its galvanizing plant in St. Louis, Missouri. This facility features a 51-foot kettle, providing the largest galvanizing capacity in the St. Louis region.

In the third quarter of 2002, at certain of its plants, NAG 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 with a non-conductive coating is applicable to many environments that have unique corrosion issues.

In 2001, the Company completed a major expansion of its galvanizing operations with the construction of a new galvanizing plant in Houston, Texas. This facility includes a 62-foot galvanizing kettle with capabilities to process extra large poles for the wireless communication and electric transmission markets. The facility became operational in the first quarter of 2001.

RAW MATERIAL

Zinc, the primary raw material and largest cost component in the Company's galvanizing process, is currently readily available. The market price of zinc is volatile. During 2005, the spot price of zinc quoted on the London Metal Exchange increased $.30 per pound, starting the year at $.57 per pound and ending the year at $.87 per pound. The zinc price continued to increase during 2006, ending the year at $1.96, a 125% increase over the 2005 year end price. The Company's zinc procurement strategy to minimize the potential risk associated with zinc price fluctuations primarily includes entering into forward purchase commitments for physical delivery of up to one year.

CUSTOMERS

NAG's ten largest customers, on a combined basis, accounted for approximately 36% of the Company's consolidated sales in 2006, compared with 37% in 2005. The backlog of orders at NAG 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. In 2006, NAG galvanized in excess of 400,000,000 pounds of steel products for approximately 1,700 customers nationwide.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level.

All of the Company's sales are generated for 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. NAG 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 NAG 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 NAG 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, as demonstrated by the purchase of the hot-dip galvanizing assets of a galvanizing facility in Canton, Ohio (2005), as well as expanded service capabilities at its existing plants.

Our management does not generally consider our business to be seasonal due to the breadth and diversity of markets served, although sales volumes typically are lower in the first and fourth quarters due to seasonality in certain construction markets. NAG generated 50% of its sales volume during the first six-months of 2006, compared with 45% in the first six-months of 2005. If the purchase of the galvanizing facility in Canton, Ohio had taken place on January 1 of 2005, the revenues generated during the first six-months of 2005 would have been 47%.

ENVIRONMENTAL

The Company's facilities are subject to extensive environmental legislation and regulation affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately $1,333,000 and $1,354,000 in 2006 and 2005, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

EMPLOYEE RELATIONS

NAG'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 galvanizing plants expired October 31, 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 employee contributions to the group health plan more closely in line with contributions made by non-union employees of the Company.

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. 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's total employment was 368 and 361 persons at December 31, 2006 and 2005, respectively. In February 2005, the Company added 45 persons with the purchase of a galvanizing facility located in Canton, Ohio. The Company believes its relationship with its employees is satisfactory.

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 2007, 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, our 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 OUR REVENUES TO DECREASE. NAG 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. NAG 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. 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 our 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 us and our revenues.

THE VOLATILITY AND AVAILABILITY OF RAW MATERIAL AND NATURAL GAS COSTS COULD REDUCE THE COMPANY'S PROFITS. Purchased zinc and natural gas, combined, represent the largest portion of cost of goods sold. NAG's costs in 2005 relating to zinc and natural gas increased dramatically over the prior year. 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.

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

NORTH AMERICAN GALVANIZING & COATINGS, INC. IS INVOLVED IN A LAWSUIT CONCERNING A FORMER SUBSIDIARY'S OPERATION OF A STORAGE TERMINAL IN VIOLATION OF ENVIRONMENTAL laws. In 2004, attorneys for the Metropolitan Water Reclamation District of Greater Chicago (the "Water District") filed a complaint in District Court, naming North American Galvanizing & Coatings, Inc. as an added defendant. This Complaint seeks enforcement of an August 12, 2004 default judgment in the amount of $1,810,463.34 against a former subsidiary of the Company, Lake River Corporation and Lake River Holding Company, Inc. The default judgment is in connection with the operation of a storage terminal by Lake River Corporation in violation of environmental laws. The Complaint asserts that prior to the sale of Lake River Corporation, North American Galvanizing directly operated the Lake River facility. The Water District 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. In December 2004, the Water District filed another 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 this claim, 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. The Company is evaluating the judgment and expects to file a motion for reconsideration with the Seventh Circuit.

Meanwhile, litigation and discovery in the trial court have been stayed pending mediation. The mediation is governed by a Settlement Protocol and Standstill Agreement (the "Protocol") negotiated and signed by the parties. The Protocol states that the parties will minimize discovery to focus on mediation. The court approved the Protocol without setting any deadlines for the case. If the mediation fails, the parties will resume discovery and the litigation in the United States District Court will continue.

At this time, the Company has incurred a significant amount of legal costs to defend this case and can not estimate the amount of any liability that may result from this matter. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

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. NAG 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.

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. Lack of management resources could impact the Company's ability to operate and compete in the galvanizing industry.

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 NAG 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.

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. NAG may not be able to locate suitable acquisition candidates, acquire candidates on acceptable terms or integrate acquired businesses successfully. In addition, NAG 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.

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.

THE COMPANY'S BOARD OF DIRECTORS, WHOSE INTERESTS MAY NOT BE ALIGNED WITH OTHER SHAREHOLDERS, WILL BE ABLE TO INFLUENCE THE OUTCOME OF SHAREHOLDER VOTES. As of December 31, 2006, the Company's board of directors collectively owned approximately 34.6% of the Company's common stock. Accordingly, the directors, as a group, will be able to significantly influence the outcome of shareholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in NAG's certificate of incorporation or bylaws, and the approval of mergers and other significant corporate transactions, and their interests may not be aligned with other shareholders. The existence of these levels of ownership concentrated in a few persons makes it less likely that any other holder of common stock will be able to affect the Company's management or direction. These factors may also have the effect of delaying or preventing a change in management or voting control or the Company's acquisition by a third party.

TERMS OF THE COMPANY'S EXISTING BANK TERM LOAN AND REVOLVING CREDIT FACILITY RESTRICT CERTAIN ASPECTS OF THE COMPANY'S OPERATIONS. These restrictions include specified minimum values for the net worth and working capital and a maximum debt to net worth ratio for the Company, and limitations on incurring additional debt or capital expenditures or engaging in acquisitions and dispositions by the Company. Among the foregoing, the most restrictive covenant is the requirement that the aggregate expenditures for capital expenditures, debt and interest not exceed the aggregate of earnings before interest, taxes, depreciation and amortization (EBITDA). While the Company has maintained continuous compliance with all of the required financial covenants of the credit facility since the first quarter of 2005, there can be no assurance that the Company will be able to continue to comply with these restrictions without disrupting its business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

No unresolved staff comments were open as of the date of this report, February 14, 2007.

ITEM 2. PROPERTIES

NAG operates hot dip galvanizing plants located in Ohio, Oklahoma, Missouri, Texas, Colorado, Tennessee and Kentucky. Two of the Company's plants, located in Kansas City, Missouri and Tulsa, Oklahoma, are leased under terms which give NAG the option to extend the leases for up to 15 years. NAG'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 two plants 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 February 28, 2008, under which the Company is provided an $8,000,000 revolving credit facility and a $5,001,000 term loan.

The Company's headquarters office is located in Tulsa, Oklahoma, in approximately 4,600 square feet of office space leased through February, 2009.

ITEM 3. 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 September 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 denies 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. The Company is evaluating the judgment and expects to file a motion for reconsideration with the Seventh Circuit.

Meanwhile, litigation and discovery in the trial court have been stayed pending mediation. The mediation is governed by a Settlement Protocol and Standstill Agreement (the "Protocol") negotiated and signed by the parties. The Protocol states that the parties will minimize discovery to focus on mediation. The court approved the Protocol without setting any deadlines for the case. If the mediation fails, the parties will resume discovery and the litigation in the United States District Court will continue.

The Company has denied any liability with respect to this claim and intends to vigorously defend this case. The Company has not recorded any liability related to the Water District claim and the estimated timeframe for resolution is unknown. The potential claim with respect to the Water District claim could exceed the amount of the default judgment. As liability and piercing of the corporate veil are being contested and 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 loss, if any, that could result from an unfavorable outcome. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

NAG 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. A number of the PRPs have agreed to work together and with IEPA on a voluntary basis. The Company has been and continues to participate in this volunteer group. The group has retained consultants and legal representatives familiar with IEPA regulations. This volunteer group, with its consultants, has cooperated with IEPA in attempting to better define the environmental issues associated with the Sandoval Zinc site. To that extent, this voluntary group prepared and submitted to IEPA in August 2000 a work plan. The purpose of this work plan is to attempt to define the extent of environmental remediation that might be required, assess risks, and review alternatives to addressing potential remediation. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to this proposed work plan or suggest any other course of action, and there has been no activity in regards to this issue since 2001. The Company does not have any liability accrued relating to the IEPA matter. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown. 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.

The lease term of a galvanizing facility located in Tulsa, Oklahoma, occupied by Reinforcing Services, Inc. ("RSI"), a subsidiary of North American Galvanizing Company, expired July 31, 2003 and has not been renewed. RSI has exercised an option to purchase the facility, and the landlord is contesting the Company's right to exercise this option. RSI has filed a lawsuit against the landlord seeking enforcement of the right to exercise the option and requested a summary judgment in its favor. The court ruled in favor of RSI and as a result, RSI is negotiating terms of the purchase and related items with the landlord. The Company expects this matter to be resolved during 2007 without negative financial impact.

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 2006.

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 trades on the American Stock Exchange under the symbol "NGA". The Company does not expect to pay a dividend on its common stock and has not done so in the past 30 years. 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 13, 2007 numbered approximately 1,235.

QUARTERLY STOCK PRICES

	First	Second	Third	Fourth
2005				
High	$ 3.47	$ 2.77	$ 2.64	$ 2.32
Low	$ 1.95	$ 1.79	$ 1.87	$ 1.90
2006				
High	$ 3.00	$ 6.31	$ 8.77	$ 7.35
Low	$ 2.01	$ 2.80	$ 4.41	$ 5.16

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	Approximat Dollar Val of Shares that May Y be Purchas Under the Plan
February 1, 2006 - February 28, 2006	200	$ 2.25	132,461	$ 765,397
May 1, 2006 - May 31, 2006	75	4.14	132,536	765,087
August 1, 2006 - August 31, 2006	260	7.83	132,796	763,051
October 1, 2006 - October 31, 2006	200	6.05	132,996	761,841
Total	735	$ 5.45	132,996	$ 761,841

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. 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 $1,000,000.

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 "2006 Proxy

Statement") or the Company's Annual Report to Shareholders (the "2006 Annual Report") for its annual meeting of stockholders to be held on May 15, 2007 and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for years 2002 through 2006 are presented on page FS-36 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 19 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-13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to Financial Statements and Supplementary Data is presented on pages 14-15 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

The certifying officers of the Company are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have (i) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiary, is recorded, processed, summarized and reported within the time frames specified in the SEC's rules and forms and that such information is made known to them by others within the Company and such entity to allow for timely decisions regarding required disclosures; and (ii) along with other members of management, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the chief executive officer and the chief financial officer of the Company have concluded that the Company's disclosure controls and procedures were effective during the period being reported on in this annual report.

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 December 31, 2006 that materially affected, or were reasonably likely to materially affect, our internal controls 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 2007 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2007 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-23 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 2007 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 2007 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 2007 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

(2) FINANCIAL STATEMENT SCHEDULES

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.

(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 September 24, 1999, between Kinark Corporation, a Delaware corporation, and Bank One, Oklahoma, N.A., National Association, a national banking association.
10.1.1	Amendment One to Credit Agreement, March 30, 2001.

10.1.2*	Amendment Two to Amended and Restated Credit Agreement, November 26, 2001.
10.1.3	Amendment Three to Amended and Restated Credit Agreement, September 26, 2003 (incorporated by reference to the Company's Form 10-Q filed with the Commission on November 7, 2003.
10.1.4*	Amendment Four to Amended and Restated Credit Agreement, December 15, 2004.
10.1.5	Amendment Five to Amended and Restated Credit Agreement, February 28, 2005 (incorporated by reference to the Company's Form 8-K filed with the Commission on March 4, 2005).
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-Kfiled 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, T. Stephen Gregory, 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.
99*	Cautionary Statements by the Company Regarding Forward Looking Statements.

*Filed Herewith. **Indicates management contract or compensation plan.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004:

	Balance at Beginning		Balance at End

Description	of Year	Additions	Deductions	of Year
Allowance for doubtful receivables and credit memos(deducted from accounts receivable)				
2006	$124,000	$100,000	$27,000	$197,000
2005	257,000	29,000	162,000	124,000
2004	339,000	50,000	132,000	257,000

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, as duly authorized.

NORTH AMERICAN GALVANIZING
& COATINGS, INC. (Registrant)

Date: February 14, 2007

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, this report has been signed below on February 14, 2007, 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/ Ronald J. Evans*

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

/s/ Patrick J. Lynch*

Patrick J. Lynch, Director

/s/ Gilbert L. Klemann, II*

Gilbert L. Klemann, II

/s/ John H. Sununu*

John H. Sununu, Director

/s/ Beth B. Hood

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

/s/ Linwood J. Bundy*

Linwood J. Bundy, Director

/s/ T. Stephen Gregory*

T. Stephen Gregory, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

North American Galvanizing ("NAG") 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 proprietary INFRASHIELDsm Coating Application Systems for 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 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 2006, the Company galvanized in excess of 400,000,000 pounds of 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 - 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, 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 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 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 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 designed to increase industry awareness of the proven, 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 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.

KEY DEVELOPMENTS

During the period January, 2003 through February 2005, the Company reported a number of developments supporting its strategic program to reposition its galvanizing business in the national market.

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. Sales for the Canton galvanizing operation for its most recent fiscal year ended May 28, 2004 were approximately $7 million. Operating results of the purchased galvanizing assets are included in the Company's financial statements commencing from the date of purchase on February 28, 2005.

This strategic expansion provides NAG an important, established customer base of major fabricators serving industrial, OEM, and highway markets as well as residential and commercial markets for lighting poles. Canton's 52 foot long dipping kettle 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. The Canton plant also processes small parts used in construction, such as nuts and anchor rods, in a dedicated facility with a smaller 16 foot dipping kettle and a spinner operation.

In January 2003, the Company opened its St. Louis galvanizing plant, replacing a smaller plant at the same location. This larger facility is providing NAG a strategic base for extending its geographic area of service. A 51-foot kettle at this facility provides the largest galvanizing capacity in the St. Louis region. In 2004, production tonnage at St. Louis more than doubled compared to production at the plant it replaced.

In January 2003, the Company expanded services at its Nashville galvanizing plant with the announced installation of a state-of-the-art spinner line to galvanize small products, including bolts and threaded material.

In June 2003, the Company wrote-off its investment in the formerly idled Houston-Cunningham galvanizing plant. The write-off resulted in a net loss on the abandoned assets of $754,000, net of taxes of $443,000 in 2003. The net loss from operations for the Cunningham plant was $77,000, net of taxes of $45,000, for the year ended December 31, 2003. The abandoned Cunningham plant has been classified as a discontinued operation and its expenses are not included in the results of continuing operations discussed below.

Effective in 2001, the Company adopted the units of production method of depreciation, for certain equipment at new galvanizing plants and for significant expansions of existing plants. The units of production method of depreciation was based on projected total tonnage to be processed over the estimated lives of the respective plant equipment. The straight-line method of depreciation was continued for all other plant and equipment. In recognition of subsequent experience that indicated the equipment being depreciated under the units of production method was affected to a greater extent by age than by the level of production activity taking place within the plants, effective July 1, 2006, the Company changed its depreciation method for these assets, with an aggregate cost basis of $5.9 million, from the units of production method to the straight-line method. This change in accounting estimate effected by a change in accounting principle is preferable because the straight-line method better allocates the cost of these assets to accounting periods in a systematic and rational manner more closely related to the assets' pattern of consumption.

The impact on current year earnings from this change, which was applied prospectively beginning July 1, 2006, was a decrease in operating income of $348,000, a decrease in net income of $216,000 and a reduction in basic and diluted earnings per share of $.03 for the year ended December 31, 2006.

RESULTS OF OPERATIONS

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

	(DOLLARS IN THOUSANDS) YEAR ENDED DECEMBER 31,		
	2006	2005	20

	AMOUNT	% OF SALES	AMOUNT	% OF SALES	AMOUNT
Sales	$ 74,054	100.0%	$ 47,870	100.0%	$ 35,822
Cost of sales	54,662	73.8%	35,969	75.1%	25,814
Selling, general and administrative expenses	8,058	10.9%	7,196	15.0%	5,917
Depreciation and amortization	2,975	4.0%	2,532	5.3%	2,701
Operating income	8,359	11.3%	2,173	4.5%	1,390
Interest expense	867	1.2%	1,074	2.2%	764
Interest income	(62)	(0.1)%			
Other income	--	--	--	--	(25)
Income from operations before income taxes	7,554	10.2%	1,099	2.3%	651
Income tax expense	3,019	4.1%	455	1.0%	248
Net income	$ 4,535	6.1%	$ 644	1.3%	$ 403

2006 COMPARED TO 2005

SALES---Sales for the year ended December 31, 2006 increased 55% over the prior year due to a higher average sales price and a 10% increase in volume. Sales prices have increased in response to increases in zinc costs. In 2006, average selling prices for galvanizing and related coating services increased 41% over 2005. The London Metals Exchange (LME) market price for zinc in 2006 averaged $1.49 per pound, compared to $.63 per pound in 2005, representing a 137% increase.

A general improvement in hot-dip galvanizing demand due to increased commercial spending and higher construction activity led to the volume increase in 2006 compared to 2005. The Canton, Ohio galvanizing facility was purchased on February 28, 2005. The results for 2006 include a full year for Ohio versus only 10 months included in 2005 results. The impact of Ohio revenues on total revenues, when comparing variances from 2006 to 2005, is minimal.

COST OF SALES---The increase in cost of sales from 2005 to 2006 resulted mainly from an increase in zinc costs and a 10% increase in volume. Forward purchases of zinc at prices lower than current market during the first six months of 2006 reduced cost of sales by $2.9 million. Other items impacting cost of sales include decreased utility costs, $.4 million, and decreased labor costs, $.2 million, offset by an increase in plant overhead, primarily repairs and maintenance, $.7 million.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES--- SG&A increased $.9 million, or 12.0%, from 2005 to 2006, but decreased as a percent of revenues from 15% in 2005 to 10.9% in 2006. The increase is due to increases in personnel costs, $.6 million, board of director fees $.2 million, information technology and outsourced services related to Sarbanes-Oxley 404 compliance efforts, $.2

million, legal fees related to the Lake River litigation, $.1 million, and other increases, $.1 million, offset by reductions in shareholder services, $.2 million, and decrease in audit and tax expenses, $.1 million.

DEPRECIATION EXPENSE--- Depreciation expense for 2006 increased $.4 million from 2005, resulting primarily from a change in depreciation method for two newer galvanizing facilities. The Company previously used the units of production method for machinery and equipment at these facilities. Effective July 1, 2006, the Company changed to the straight-line method.

OPERATING INCOME--- Operating income increased $6.2 million from 2005 to 2006. The Company's ability to increase average selling prices due to zinc cost increases had a favorable impact on operating income of $3.5 million. Forward purchases of zinc at prices lower than current market during the first six months of 2006 contributed $2.9 million to operating income. Other items impacting operating income include increased sales volume, $1.2 million, decreased utility costs, $.4 million, and decreased labor costs, $.2 million, offset by increases in selling, general, and administrative costs, $.9 million, plant overhead, primarily repairs and maintenance, $.7 million, and increase in depreciation expense, $.4 million.

INTEREST EXPENSE AND INTEREST INCOME--- Interest expense decreased $.2 million from 2006 to 2005, due to decreased debt outstanding resulting from the payment of long-term debt obligations and the August 31, 2006 payment of the subordinated notes payable. In 2006, the Company recorded interest income of $.1 million resulting from investing excess cash in short-term investments, primarily overnight repurchase agreements.

INCOME TAXES--- The Company's effective income tax rates for 2006 and 2005 were 40.0% and 41.4%, 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 2006, the Company reported net income of $4.5 million compared to net income of $.6 million for 2005. The increase in net income is primarily a result of the increase in revenues due to increases in sales price and volume.

2005 COMPARED TO 2004

SALES--- Sales for the year ended December 31, 2005 increased 34% over the prior year due primarily to contribution from the Canton, Ohio galvanizing facility that was purchased February 28, 2005. Same plant revenues for the year improved 14% over 2004. North American Galvanizing's same plants started the year with a period of slow demand in the first two months. A general increase in demand due to increased commercial spending and higher construction activity led to a positive trend in same plant revenues continuing throughout the remainder of 2005. Sales volumes at same plants for the fourth quarter of 2005 were 19% higher than the same period in 2004 and 43% higher in total, including the Ohio plant. Sales volumes at same plants during 2005 were 11% higher than 2004 and 30% higher in total, including Ohio.

In 2005, average selling prices for galvanizing and related coating services increased 2% over 2004. General price increases were communicated to customers during the third quarter of 2005. Prices during the 4th quarter 2005 were on average 8% higher than prices during the same period in 2004.

COST OF SALES---

Cost of sales, as a percent of sales, increased 3.0% from 2004 to 2005. Of the 3% increase in cost of sales as a percent of sales, 1.7% was due to increased costs in the Canton, Ohio galvanizing facility compared to same plants. The primary difference in costs is higher labor costs at the Ohio plant. As part of the transition program started with the February 28, 2005 purchase, management is focused on improving labor efficiency, measured by pounds-per-man-hour and cost-per-man-hour, at this facility.

Higher zinc and natural gas costs in 2005 were responsible for the remainder of the increase in cost of sales as a percent of sales, 1.3%.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES--- SG&A increased $1.3 million, or 21.6%, from 2004 to 2005. $.5 million of the increase is due to selling, general and administrative costs related to the Canton, Ohio galvanizing facility acquired in early 2005, $.2 million due to audit and tax fees and professional fees related to compliance with Sarbanes Oxley 404 requirements, $.2 million due to legal fees related to the Lake River lawsuit, $.1 million related to increased Board of Director fees, $.1 million related to shareholder services, $.1 million due to increases in compensation for administrative and office personnel and $.1 million in other expenses.

Selling, general, and administrative expenses, as a % of sales, decreased from 16.5% in 2004 to 15.0% in 2005.

DEPRECIATION EXPENSE--- Depreciation expense for 2005 decreased $.2 million from 2004. Most of the decrease for 2005 relates primarily to assets becoming fully depreciated, $.4 million, offset by increased depreciation expense for the Canton, Ohio galvanizing plant and equipment of $.2 million.

OPERATING INCOME---Operating income increased $.8 million from 2004 to 2005. Operating income from the Ohio galvanizing facility purchased in 2005 contributed $.2 million to operating income. Operating income at same plants was impacted negatively by higher zinc and utility costs, $1.3 million, along with higher SG&A costs, $.8 million. Items having a positive impact on operating income at same plants include increased sales volume, $1.1 million, the increase of average selling prices due to zinc cost increases, $.9 million, lower depreciation expense, $.4 million, and lower labor and other overhead costs, $.3 million.

INTEREST EXPENSE--- Interest expense increased to $1.1 million in 2005 from $.8 million in 2004, primarily due to higher interest rates on variable-rate debt and higher debt related to the purchase of the Canton, Ohio galvanizing facility in the first quarter of 2005.

INCOME TAXES--- The Company's effective income tax rates for 2005 and 2004 were 41.4% and 38.1%, 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 2005, the Company reported net income of $.6 million compared to net income of $.4 million for 2004. The increase in net income is primarily a result of the increase in sales volume.

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 2006 and 2005, 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 $6.6 million both in 2006 and in 2005. In 2006, cash flow from operating activities reflected higher net income offset by a decrease in net deferred tax liabilities, and a net cash outflow of $.7 million from other operating assets and liabilities compared to a net cash inflow of $2.6 million from other operating assets and liabilities in the prior year.

Capital expenditures for equipment and upgrade of existing galvanizing facilities totaled $1.4 million in 2006. Cash of $5.2 million used in 2005 investing activities consisted of $4.2 million to acquire certain assets of Gregory Industries' Inc. and capital expenditures of $1.0 million for equipment to maintain galvanizing facilities. The Company expects base capital expenditures for 2007 to approximate $4.0 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, offset by $.8 million received from the exercise of stock options. In 2005, cash used in financing activities totaled $.7 million, including proceeds from the sale of treasury stock of $.1 million, payments of $.7 million to a bond sinking fund, and payment on long-term obligations of $.1 million.

In February 2005, the Company amended the three-year bank credit agreement that was scheduled to expire in December 2007 and extended its maturity to February 28, 2008. Subject to borrowing base limitations, the amended agreement provided (i) an $8,000,000 maximum revolving credit facility for working capital and general corporate purposes and (ii) a $5,001,000 term loan that combined the outstanding principal balance of the existing term loan with additional financing for the purchase of assets of a galvanizing facility (Note 2).

Term loan payments are based on a seven-year amortization schedule with equal monthly payments of principal and interest, and a final balloon payment in February 2008. The term loan may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the maximum line of credit. At December 31, 2006, the Company had additional borrowing capacity of $7.6 million, net of outstanding irrevocable letters of credit, under the bank revolving line of credit based on the borrowing base calculated under the agreement. At December 31, 2006, there were no borrowings outstanding under the bank revolving line of credit, and $.4 million was reserved for outstanding irrevocable 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 NAG. Amounts borrowed under the agreement bear interest at the prime rate of JPMorgan Chase Bank or the LIBOR rate, at the option of the Company, subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. The interest rate on these borrowings was 8.5% at December 31, 2006. In the event the Company fails to maintain a consolidated debt service coverage ratio for any fiscal quarter of at least 1.25 to 1.00, the Applicable LIBOR Rate Margin will be increased from 3.0% to 5.75% and the Applicable Prime Rate Margin will be increased from .25% to 3.00%. Thereafter, the increased rate margin will remain in effect until such time as the Company has maintained a consolidated debt service coverage ratio greater than or equal to 1.25 to 1.00 for a subsequent fiscal quarter.

In the event the Company fails to maintain a consolidated EBITDA to capital expenditures ratio for any fiscal quarter of at least 1.00 to 1.00, the increase in the Applicable LIBOR Rate Margin ranges from 3.75% to 5.75%, and the increase in the Applicable Prime Rate Margin ranges from 1.00% to 3.00%.

Amounts borrowed under the bank credit facilities bore interest ranging from 4.21% to 8.5% during the three years ended December 31, 2006 and an effective rate of 8.5% at December 31, 2006 and 7.5% at December 31, 2005.

The bank credit agreement requires the Company to maintain compliance with covenant limits for current ratio, debt to tangible net worth ratio, debt service coverage ratio and a capital expenditures ratio. At December 31, 2006 the Company was in compliance with all of the covenant limits and the actual financial ratios compared to the required ratios, were as follows: Current Ratio - Actual 1.67 versus minimum required of 1.1; Debt to Tangible Net Worth Ratio - Actual 1.02 versus maximum permitted of 2.50; Debt Service Coverage Ratio - Actual 3.45 versus minimum permitted of 1.25; Capital Expenditures Coverage Ratio - Actual 1.99 versus minimum required of 1.0.

The Company has various commitments primarily related to industrial revenue bonds, long-term debt, 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, 2006, consist of $789,000 for vehicle and equipment operating leases, $788,000 for zinc purchase commitments, and $860,000 for long-term operating leases for three galvanizing facilities. The various leases for galvanizing facilities, including option renewals, expire from 2015 to 2017. A lease for galvanizing equipment expires in 2007. The vehicle leases expire annually on various schedules through 2012. NAG 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, 2006, including estimated interest payments, using interest rates as of December 31, 2006, are as follows (in thousands):

	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Industrial revenue bonds	$ 6,022	$ 1,041	$ 2,987	$ 1,994	$ --
Long-term debt	4,733	1,126	3,590	6	10
Facilities operating leases	858	207	433	108	110
Vehicle and equipment operating leases	789	529	240	20	--
Zinc purchase commitments	788	788	--	--	--
Capital lease obligations	382	84	252	46	--
Total contractual cash obligations	$ 13,572	$ 3,775	$ 7,502	$ 2,174	$ 120
Other contingent commitment:					
Letters of credit*	$ 389	$ 389	$ --	$ --	$ --

*The Company has outstanding letters of credit totaling approximately $6,098,000, which includes $5,709,000 related to the Company's industrial revenue bonds shown in the table of contractual obligations above.

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 2006, the Company repurchased 735 shares at an average price per share of $5.31, bringing the total number of shares repurchased through December 31, 2006 to 132,996 at an average price of $1.79 per share totaling $238,159.

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 was approximately $1,333,000, $1,354,000, and $1,053,000 in 2006, 2005 and 2004, 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 September 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 denies 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. The Company is evaluating the judgment and expects to file a motion for reconsideration with the Seventh Circuit. Meanwhile, litigation and discovery in the trial court have been stayed pending mediation. The mediation is governed by a Settlement Protocol and Standstill Agreement (the "Protocol") negotiated and signed by the parties. The Protocol states that the parties will minimize discovery to focus on mediation. The court approved the Protocol without setting any deadlines for the case. If the mediation fails, the parties will resume discovery and the litigation in the United States District Court will continue.

The Company has denied any liability with respect to this claim and intends to vigorously defend this case. The Company has not recorded any liability related to the Water District claim and the estimated timeframe for resolution is unknown. The potential claim with respect to the Water District claim could exceed the

amount of the default judgment. As liability and piercing of the corporate veil are being contested and 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 loss, if any, that could result from an unfavorable outcome. Such a liability, if any, could have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

NAG 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. A number of the PRPs have agreed to work together and with IEPA on a voluntary basis. The Company has been and continues to participate in this volunteer group. The group has retained consultants and legal representatives familiar with IEPA regulations. This volunteer group, with its consultants, has cooperated with IEPA in attempting to better define the environmental issues associated with the Sandoval Zinc site. To that extent, this voluntary group prepared and submitted to IEPA in August 2000 a work plan. The purpose of this work plan is to attempt to define the extent of environmental remediation that might be required, assess risks, and review alternatives to addressing potential remediation. The estimated timeframe for resolution of the IEPA contingency is unknown. The IEPA has yet to respond to this proposed work plan or suggest any other course of action, and there has been no activity in regards to this issue since 2001. The Company does not have any liability accrued relating to the IEPA matter. Until the work plan is approved and completed, the range of potential loss or remediation, if any, is unknown. 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.

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 the frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities. The following areas are those that management believes are important to the financial statements because they require significant judgment and estimation.

REVENUE RECOGNITION--Revenue is recognized when earned and realized or realizable in accordance with Staff Accounting Bulletin (SAB) 104. This includes satisfying the following criteria: the arrangement with the customer is evident, through the receipt of a purchase order or a written agreement; the sales price is fixed or determinable; coating services have been completed, including inspection by the Company according to American Society for Testing and Materials ("ASTM") standards; and collectibility is reasonably assured. The Company does not accept title to customers' products, thus, revenue does not include the value of the customers' products. Although most customers make arrangements for transportation, if the Company makes transportation arrangements, freight and shipping billed to customers is included in sales, and the cost of freight and shipping is included in cost of sales.

INVENTORIES--Inventories are stated at the lower of cost (LIFO basis) or market. Since substantially all of the Company's inventory is raw zinc used in the galvanizing of customers' products, market value is based on an estimate of the value added to the cost of raw zinc as a result of the galvanizing service.

SELF-INSURANCE RESERVES--The reserves for the self-insured portion of workers compensation and health insurance coverage is based on historical data and current trends. Estimates for claims incurred and incurred but not reported claims are included in the reserves. These estimates may be subject to adjustment if the Company's actual claims are significantly different than its historical experience. The Company has obtained insurance coverage for medical claims exceeding $75,000 and workers' compensation claims exceeding $150,000 per occurrence, respectively, and has implemented safety training and other programs to reduce workplace accidents.

IMPAIRMENT OF LONG-LIVED ASSETS--The Company reviews long-lived assets for impairment using forecasts of future cash flows to be generated by those assets. These cash flow forecasts are based upon expected tonnage to be galvanized and the margin to be earned by providing that service to customers. These assumptions are susceptible to the actions of competitors and changes in economic conditions in the industries and geographic markets the Company serves.

ENVIRONMENTAL--The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

GOODWILL--Pursuant to the provisions of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," which requires management to estimate the fair value of the Company's reporting units, the Company conducts an annual impairment test of goodwill during the second quarter of each year unless circumstances arise that require more frequent testing. The determination of fair value is dependent upon many factors including, but not limited to, management's estimate of future cash flows of the reporting units and discount rates. Any one of a number of future events could cause management to conclude that impairment indicators exist and that the carrying value of these assets will not be recovered. During the second quarter of 2005, the Company completed the annual impairment test of goodwill for 2005 and concluded goodwill was not impaired.

NEW ACCOUNTING STANDARDS--In June, 2006, the FASB issued FIN 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of evaluating the impact that the adoption of FIN 48 will have on its financial position, consolidated results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, FAIR VALUE MEASUREMENTS ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently in the process of evaluating the impact that the adoption of SFAS 157 will have on its financial position, consolidated results of operations and cash flows, but does not expect it to have a material impact.

In November 2004, the FASB issued SFAS No. 151, INVENTORY COSTS-AN AMENDMENT OF ARB NO. 43, CHAPTER 4 ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether

they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and was adopted by NAG on January 1, 2006. Adoption of SFAS 151 had no material impact on its consolidated results of operations, financial condition and cash flows.

The Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)") under the modified prospective method on January 1, 2006. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123(R) for all share-based payments granted after that date, and based on the requirements of Statement of Financial Accounting Standards No.123, "Accounting for Stock Based Compensation" ("SFAS No. 123") for all unvested awards granted prior to the effective date of SFAS No. 123(R).

SFAS No. 123(R) eliminates the intrinsic value measurement method of accounting in APB Opinion 25 and generally requires measuring the cost of the employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such costs must be recognized over the period during which an employee is required to provide service in exchange for the award. The standard also requires estimating the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The compensation cost for the Plan was $99,000 for the year ended December 31, 2006. The effect of the adoption of SFAS No. 123 (R) on the consolidated financial statements of the Company is reflected in the tabular information in

Footnote 1 to the Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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. Changing interest rates will affect interest paid on the Company's variable rate debt. Variable rate debt aggregating $3,751,000 and $7,769,000 was outstanding under the credit agreement at December 31, 2006 and 2005, respectively, with effective rates of 8.5% and 7.5%, respectively. Amounts of variable rate debt outstanding under the industrial revenue bond agreement were $5,265,000 and $5,933,750 at December 31, 2006 and 2005, respectively, with an effective rate of 4.0% (see Note 6 to Consolidated Financial Statements). In addition, the Company's fixed rate obligations consisting of $345,000 in capital lease obligations with fixed rates between 6.7% and 7.5%, and a 9.5% note payable were outstanding at December 31, 2006. The borrowings under all of the Company's debt obligations at December 31, 2006 are due as follows: $1,609,000 in 2007; $3,912,000 in 2008; $926,000 in 2009, $976,000 in 2010, $987,000 in 2011 and $951,000 in years 2011 through 2015. Each increase of 10 basis points in the effective interest rate would result in an annual increase in interest charges on variable rate debt of approximately $9,000 based on December 31, 2006 outstanding borrowings. The actual effect of changes in interest rates is dependent on actual amounts outstanding under the various loan agreements. The Company monitors interest rates and has sufficient flexibility to renegotiate the loan agreement, without penalty, in the event market conditions and interest rates change.

ZINC PRICE RISK--NAG periodically enters into fixed price purchase commitments for physical delivery 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, typically up to one year, reflect rates quoted on the London Metals Exchange. At December 31, 2006 and 2005, the aggregate fixed price commitments for the

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procurement of zinc were approximately $788,000 and $3,424,000, respectively. With respect to the zinc fixed price purchase commitments, a hypothetical decrease of 10% in the market price of zinc from the December, 2006 and 2005 levels would represent potential lost gross margin opportunity of approximately $78,800 and $342,000, respectively.

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's current zinc forward purchase commitments (see Note 8) are considered derivatives, but the Company has elected to account for these purchase commitments as normal purchases.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of North American Galvanizing & Coatings, Inc. is responsible for the integrity and accuracy of the accompanying consolidated financial statements. Management believes that the consolidated financial statements for the three years ended December 31, 2006 have been prepared in conformity with accounting principles, appropriate in the circumstances, generally accepted in the United States. In preparing the consolidated financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed. The Company's disclosure controls, including operating procedures and guidelines, ensure that material information required to be disclosed is appropriately and timely recorded and communicated to management.

Management relies on a system of internal operating procedures and accounting controls that allows it to meet its responsibility for the reliability of the consolidated financial statements. This system provides reasonable assurance that the Company's physical and intellectual assets are safeguarded and transactions are recorded and processed in accordance with management's authorization that permits the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Management believes that the Company's system of internal operating procedures and accounting controls provide reasonable assurance that errors that could be material to the consolidated financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, composed of three Independent Directors, is responsible for overseeing the Company's financial reporting process. The Audit Committee regularly meets with executive and financial management to review financial reports and monitor matters that could be material to the consolidated financial statements. The Audit Committee also meets several times a year with the independent auditors who have free access to the Audit Committee and the Board of Directors to discuss the quality and acceptability of the Company's financial reporting, internal controls and matters related to corporate governance.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Their report is included herein on page FS-16.

/s/Ronald J. Evans	/s/Beth B. Hood
Ronald J. Evans	Beth B. Hood
President and	Vice President and
Chief Executive Officer	Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
NORTH AMERICAN GALVANIZING & COATINGS, INC.

We have audited the accompanying consolidated balance sheets of North American Galvanizing & Coatings, Inc. and subsidiary (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of North American Galvanizing & Coatings, Inc. and subsidiary at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the accompanying consolidated financial statements, effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

Deloitte & Touche LLP

Tulsa, Oklahoma
February 14, 2007

NORTH AMERICAN GALVANIZING & COATINGS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS	DECEMBER 31, 2006	D
CURRENT ASSETS:		
Cash	$ 1,979	$
Trade receivables--less allowances of $197 for 2006 and $124 for 2005	13,032	
Inventories	6,755	
Prepaid expenses and other assets	836	
Deferred tax asset--net	784	
Total current assets	23,386	
PROPERTY, PLANT AND EQUIPMENT--AT COSTS:		
Land	2,167	
Galvanizing plants and equipment	36,843	
	39,010	
Less--allowance for depreciation	(18,894)	
Construction in progress	1,019	
Total property, plant and equipment--net	21,135	
GOODWILL--Net	3,448	
OTHER ASSETS	242	
TOTAL ASSETS	$ 48,211	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	$ 778	$
Current portion of bonds payable	830	
Subordinated notes payable	--	
Trade accounts payable	7,444	
Accrued payroll and employee benefits	1,082	
Accrued taxes	762	
Other accrued liabilities	3,194	
Total current liabilities	14,090	
DEFERRED TAX LIABILITY--Net	802	
LONG-TERM OBLIGATIONS	3,318	
BONDS PAYABLE	4,435	
Total liabilities	22,645	

COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	
STOCKHOLDERS' EQUITY:	
Common stock--$.10 par value, 18,000,000 shares authorized:	
Issued--8,209,925 shares in 2006 and 2005	821
Additional paid-in capital	14,061
Retained earnings	11,078
Common shares in treasury at cost-- 98,253 in 2006 and 1,362,977 in 2005	(394)
Total stockholders' equity	25,566
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 48,211

See notes to consolidated financial statements.

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NORTH AMERICAN GALVANIZING & COATINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31		
	2006	2005	2004
SALES	$ 74,054	$ 47,870	$ 35,822
COSTS AND EXPENSES:			
Cost of sales	54,662	35,969	25,814
Selling, general and administrative expenses	8,058	7,196	5,917
Depreciation and amortization	2,975	2,532	2,701
Total costs and expenses	65,695	45,697	34,432
OPERATING INCOME	8,359	2,173	1,390
Interest expense	867	1,074	764
Interest income	(62)	--	--
Other income	--	--	(25)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	7,554	1,099	651
INCOME TAX EXPENSE	3,019	455	248
NET INCOME	4,535	644	403
OTHER COMPREHENSIVE INCOME			
Unrealized holding gain on investment	--	--	12
Reclassification adjustment for realized gain included in net income	--	--	(18)
Total Other Comprehensive Income	--	--	6
Comprehensive Income	$ 4,535	$ 644	$ 397

NET INCOME PER COMMON SHARE:			
Net income			
Basic	$ 0.60	$ 0.09	$ 0.06
Diluted	$ 0.58	$ 0.08	$ 0.05

See notes to consolidated financial statements.

NORTH AMERICAN GALVANIZING & COATINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS
	2006
OPERATING ACTIVITIES:	
Net income	$ 4,535
(Loss)/Gain on disposal of assets	(6)
Depreciation	2,975
Gain on sale of investments securities	--
Deferred income taxes	(786)
Non-cash directors' fees	459
Non-cash share-based compensation	99
Changes in operating assets and liabilities, net of purchase of assets from Gregory Industries, Inc. (Note 2):	
Accounts receivable--net	(6,224)
Inventories and other assets	(512)
Accounts payable, accrued liabilities and other	6,029
Cash provided by operating activities	6,569
INVESTING ACTIVITIES:	
Capital expenditures	(1,414)
Payment for purchase of Gregory Industries' galvanizing operation	--
Proceeds from sale of fixed assets	5
Investment proceeds	--
Cash used in investing activities	(1,409)
FINANCING ACTIVITIES:	
Payments on long-term obligations	(20,143)
Proceeds from long-term obligations	16,089
Payment of subordinated notes payable	(1,000)
Payment on bonds	(669)
Proceeds from exercise of stock options	771
Tax benefit realized from stock options exercised and stock units distributed	350
Proceeds from exercise of warrants	57
Purchase of treasury stock	(3)
Proceeds from sale of treasury stock	--
Cash used in financing activities	(4,548)
INCREASE IN CASH AND CASH EQUIVALENTS	612
CASH AND CASH EQUIVALENTS:	

Beginning of year	1,367
End of year	$ 1,979
CASH PAID DURING THE YEAR FOR:	
Interest	$ 880
Income taxes (net of refunds of $432 in 2005)	$ 3,419
NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Acquisitions of fixed assets under capital lease obligations	$ 363
Acquisitions of fixed assets included in accounts payable at period end	$ 464

See notes to consolidated financial statements.

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NORTH AMERICAN GALVANIZING & COATINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COMMON STOCK $.10 PAR VALUE SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPRE-HENSIVE INCOME	S
BALANCE--January 1, 2004	8,209,925	$ 819	$ 17,343	$ 5,496	$ 6	1,
Net income	--	--	--	403	--	
Other comprehensive income	--	--	--	--	(6)	
Treasury stock purchased	--	--	--	--	--	
Treasury stock issued	--	--	(91)	--	--	
BALANCE--January 1, 2005	8,209,925	$ 819	$ 17,252	$ 5,899	$ --	1,
Net income	--	--	--	644	--	
Other	2	(2)				
Stock units for Director Stock Unit Program	--	--	245	--	--	
Treasury stock purchased	--	--	--	--	--	
Treasury stock issued	--	--	(104)	--	--	
BALANCE--January 1, 2006	8,209,925	$ 821	$ 17,391	$ 6,543	$ --	1,
Net income	--	--	--	4,535	--	
Stock units for Director Stock Unit Program	--	--	459	--	ily:inherit;fon	

(5) The amount shown includes presently exercisable options for 20,000 shares of our common stock.

(6) The amount shown includes presently exercisable options for 228,072 shares of our common stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, officers and greater than 10% stockholders to file with the SEC reports of ownership and changes in ownership of our common stock. During Fiscal 2017, all of our directors and officers timely complied with the filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended.

PROPOSAL 1

ELECTION OF DIRECTORS

The number of directors is established by the board and is currently fixed at seven. At the annual meeting, the seven persons listed below will be nominated as directors. The term of office of each person elected as a director will continue until the next annual meeting or until his successor has been elected and qualified, or until the director's earlier death, resignation or removal.

Six of the board's nominees for director were elected at the last annual meeting. In addition to those standing for re-election, the board has nominated Michael W. Osborne who, upon the recommendation of the nominating and governance committee of the board of directors, was appointed as a director to fill the vacancy created on the board by the resignation of Eric B. Singer in August 2017. All nominees have consented to serve if elected. In the event that any nominee should be unable to serve or for good cause will not serve, the proxies will be voted for the election of such other persons as the nominating and governance committee of the board of directors may recommend.

Required Vote

Directors are elected by a plurality of the votes cast at the annual meeting, which means that the nominees that receive the most affirmative votes will be elected. In an uncontested election, all of the board's nominees will be elected. You may vote "FOR" the nominees, or you may "WITHHOLD" your vote from one or more of the nominees. Withheld votes and broker non-votes will have no effect on the voting results.

The board of directors unanimously recommends a vote FOR the election as directors each of the nominees listed below.

NOMINEES FOR ELECTION AS DIRECTORS

The following paragraphs provide information as of the date of this proxy statement about each nominee. We believe these nominees are highly qualified individuals with a diversity of experience. Several of the nominees have experience serving on the boards of directors of public companies and/or operational experience in the electronic contract manufacturing sector. We also believe that all of our nominees have a reputation for integrity, honesty and adherence to high ethical standards. In addition, each has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to the Company and our board.

Keith M. Butler, age 59, has served as a director of the Company since 2015. He has been the Chief Operating Officer of RxSafe LLC, a pharmacy automation equipment company, since April 2014. From October 2013 to April 2014, Mr. Butler pursued personal interests. From September 2010 to October 2013, Mr. Butler was Executive Vice President of Operations for OnCore Manufacturing Services, LLC, an electronic contract manufacturer. Mr. Butler has served as a strategic advisory board member of Vintage Capital Management, LLC since March 2009.

We believe that Mr. Butler brings extensive operational experience in the contract manufacturing sector. Mr. Butler's past and present service as a founder and executive of several contract manufacturing companies provides him with significant experience and insight relative to our industry segment as well as the competitive advantages of our operations.

Charles P. Hadeed, age 67, has served as a director of the Company since 2015. He is a director and Chairman of the Board of Transcat, Inc. (NASDAQ:TRNS), a provider of accredited calibration and compliance services and distributor of professional grade handheld test, measurement and control instrumentation. Mr. Hadeed served as Transcat's Executive Chairman from July 2013 until June 2014, as its Chief Executive Officer from April 2007 to July 2013 and as its President from May 2006 to September 2012.

We believe that Mr. Hadeed's extensive management, financial and operational experience as a former chief executive officer, chief financial officer and chief operating officer of a public company with a similar market capitalization to ours provides us with valuable experience at the board level. Mr. Hadeed's prior experiences also include turnaround management of a public company that faced obstacles similar to ours and those experiences make him a valuable board member.

Lynn J. Hartrick, age 70, has served as director of the Company since 2015. He has been the President and owner of Business Leadership Professionals, LLC, an executive coaching and business advisory firm, since April 2010. For 3 years prior to that, Mr. Hartrick was the sole proprietor of Coyote Consulting, LLC, which provided contracted interim chief executive officer services. Additionally, Mr. Hartrick was Managing Partner of Vitalwork, a management consulting firm and before that, he worked for 26 years in multiple senior roles at Rochester Telephone Corporation, including roles in operations, personnel, construction, engineering, customer service and commercial operations.

We believe that Mr. Hartrick's executive leadership and executive coaching experience make him a valuable addition to our board of directors. Mr. Hartrick has over 20 years of experience in advising executive teams as they pursue strategies to change prior habits and effect change in organizations. The board believes his experiences bring significant value as it moves to effect positive change within our organization.

Andrew M. Laurence, age 43, has served as a director of the Company since 2015. He is a partner of Vintage Capital Management, LLC. Mr. Laurence joined Vintage Capital Management in January 2010 and is responsible for all aspects of Vintage's transaction sourcing, due diligence and execution. Mr. Laurence has served as Corporate Secretary of API Technologies Corp. (NASDAQ: ATNY), a leading provider of high performance radio frequency microwave, microelectronic, power, and security solutions, since January 2011 until its sale in February 2016. Mr. Laurence also served as API's Vice President of Finance and Chief Accounting Officer from January 2011 to June 2011. Mr. Laurence also serves on the Board of Directors of Energes Services, LLC, an oilfield services company.

We believe that Mr. Laurence's experience investing in, growing and improving companies, some of which are within our industry segment, make him a valuable member of our board of directors.

Michael W. Osborne, age 47, is the Chief Revenue Officer at Angelica Corporation, a provider of healthcare linen and medical laundry services, where he is responsible for sales, marketing and customer service and also provides oversight of Angelica's turnaround key initiatives and leads the development of long-term strategic growth. Prior to joining Angelica in June 2017, from October 2016 to April 2017, Mr. Osborne served as a Senior Vice President of Steel Partners, a private investment firm, providing advisory services to its public holding company, Steel Partners Holdings L.P. (NYSE:SPLP) and its hedge fund. From June 2012 to February 2016, he served as Senior Vice President, Corporate Development and from January 2009 to June 2012 as Senior Vice President, Business

Development and Supply Chain at Sparton Corporation (NYSE:SPA), a provider of design, development and manufacturing services for complex electromechanical devices.

We believe that Mr. Osborne's operational, sales and marketing experience make him a valuable member of our board. Mr. Osborne brings relevant experience in the management and operations of companies in our industry, which are critical in developing our strategic growth and market presence.

Jeremy R. Nowak, age 42, is our Chairman of the Board and has served in such capacity since 2015. Mr. Nowak has been a partner and the Chief Operating Officer of Vintage Capital Management, LLC since July 2010. Mr. Nowak is responsible for Vintage's business development, transactional due diligence and trading execution. Mr. Nowak joined Kahn Capital Management, LLC, a predecessor to Vintage, in September 2006.

Mr. Nowak's financial and investment experience make him a valuable member of our board. Mr. Nowak's experiences at Vintage provide a needed stockholder perspective of the change the Company intends to effect.

Jeffrey T. Schlarbaum, age 51, has served as a director and as our President and Chief Executive Officer since February 2015. From February 2013 to June 2013 and from June 2014 to February 2015, Mr. Schlarbaum pursued personal interests. From June 2013 to June 2014, Mr. Schlarbaum served as Chief Operations Officer for LaserMax, Inc., a manufacturer of laser gun sights for law enforcement and the shooting sports community. From October 2010 to February 2013, Mr. Schlarbaum served as our President. Prior to that, Mr. Schlarbaum served as our Executive Vice President and President of Contract Manufacturing from October 2008 to October 2010, Executive Vice President from November 2006 to October 2008 and Vice President, Sales and Marketing from May 2004 to November 2006. Prior to joining us, Mr. Schlarbaum served in senior management roles with various contract manufacturing companies. Since July 2017, Mr. Schlarbaum also serves as a director and member of the audit committee of Lakeland Industries, Inc.

We believe that Mr. Schlarbaum's background as a senior executive of the Company provides him with extensive knowledge of our operating history. We believe that this long-term institutional knowledge of the Company, its customers and its executive team make Mr. Schlarbaum a significant asset to our board. Mr. Schlarbaum also brings general management, marketing and operational experience that is of value to the board.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Guidelines

Our business, property and affairs are managed under the direction of our board of directors. The board is committed to sound and effective corporate governance practices and, accordingly, has adopted Corporate Governance Guidelines that provide a system of best practices with respect to board function and communication. Our Corporate Governance Guidelines address matters including board composition, director responsibilities, director independence, selection of board nominees, board membership criteria, mandatory retirement, meeting participation, executive sessions of our independent directors, evaluation of the performance of the chief executive officer, committees, succession planning, orientation and continuing education.

Director Independence

The NYSE American LLC Company Guide requires that a majority of the members of a listed company's board of directors be independent. No director will qualify as "independent" unless the board affirmatively determines that the director has no relationship with the Company or any of its subsidiaries that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Based upon the NYSE American LLC Company Guide and applicable SEC rules and regulations, our board has determined that the following directors and former director are independent: Messrs. Butler, Hadeed, Hartrick, Laurence, Osborne, Nowak and Singer.

Board Leadership Structure and Role in Risk Oversight

Our board is responsible for the selection of the chairman of the board and the chief executive officer. The current board of directors believes that separating the roles of chairman of the board and chief executive officer best serves our interest in achieving effective corporate governance. The current board believes that separating these two positions allows each person to focus on his individual responsibilities, which is essential to the strategic focus on improving our operational and financial performance. Under this leadership structure, our chief executive officer can focus his attention on the day-to-day operations and performance of the Company and can work to implement our long-term strategic plans. At the same time, our non-executive chairman of the board can focus his attention on addressing long-term strategic issues, working collaboratively with our other board members, and providing independent insight and guidance to our chief executive officer. In addition, maintaining a separation of the roles of chairman of the board and chief executive officer aids the board in its oversight of our risk management. Although we believe that the separation of the roles of chairman of the board and chief executive officer is appropriate in the current environment, our board leadership structure may change in the future as our business, industry and corporate governance practices evolve.

The board of directors is responsible for overseeing risks that could affect our management's processes for managing risk. This oversight is conducted primarily through the board's committees. Our audit committee focuses on risks and exposures associated with financial matters, particularly financial reporting, tax, accounting, disclosure, internal control over financial reporting, financial policies, credit and liquidity matters and compliance with legal and regulatory matters. Our nominating and governance committee focuses on the management of risks associated with board membership and structure, as well as corporate governance. Our compensation committee focuses on the management of risks arising from our compensation policies and programs.

While our board committees are focused on these specific areas of risk, the full board retains responsibility for general oversight of risk. The board satisfies this responsibility by taking reports from each committee chairman regarding the risk considerations within each committee's area of expertise. In addition, the board receives reports from members of our senior management team responsible for oversight of material risk to the Company.

The full board focuses on the strategic, financial and execution risks associated with the annual operating plan, significant legal matters, acquisitions and senior management succession planning.

As part of its risk oversight responsibilities, our board of directors and its committees review the processes that management uses to manage our risk exposure. In doing so, the board and its committees monitor our overall risk function and senior management's establishment of appropriate systems and processes for managing areas of material risk to our Company, including, but not limited to, operational, financial, legal, regulatory and strategic risks.

Board Meetings and Attendance

During Fiscal 2017, our board held six in-person or telephonic meetings.

During Fiscal 2017, each incumbent director attended at least 75% of the meetings of the board, and of those committees upon which such director served, held during the period that he served, except for Mr. Singer who resigned from the board in August 2017.

Director Attendance at Annual Meetings

Board members are expected to attend the Company's annual meeting of stockholders each year. All of our directors attended our 2017 annual meeting of stockholders.

Board Committees

Our board has three standing committees to assist in the discharge of its responsibilities: the audit committee, the compensation committee, and the nominating and governance committee. The following table indicates the committee(s) on which each director serves or served, the identity of the chair of each committee, and the number of times each committee met during Fiscal 2017:

Committee Membership

Director:	Audit	Compensation	Nominating and Governance
Keith M. Butler	—	x	—
Charles P. Hadeed	Chair	—	Chair
Lynn J. Hartrick	—	Chair	x
Andrew M. Laurence	x	—	—
Jeremy R. Nowak	x	x	—
Jeffrey T. Schlarbaum	—	—	—
Michael W. Osborne	—	—	x
Eric B. Singer (former director)	—	—	x
Total Meetings in Fiscal 2017:	4	6	2

Each committee acts pursuant to a written charter adopted by the board. The charter of each of the audit, compensation and nominating and governance committees complies with the NYSE American corporate governance listing standards. The committees regularly report their activities and actions to the full board at the next board meeting. Each committee's charter is available on our website at www.iec-electronics.com under the heading, "Investors" and the subheading, "Corporate Governance."

Audit Committee

The audit committee oversees our corporate accounting and financial reporting processes and the audits of our financial statements. The audit committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Its responsibilities include:

- the appointment, retention, termination, compensation and oversight of our independent auditors, including an evaluation of the qualifications, performance and independence of the independent auditors;

- the review and discussion with management and the independent auditors of the financial statements and related disclosures included in our annual reports on Form 10-K and quarterly reports on Form 10-Q;
- the oversight of management’s implementation of internal controls and procedures and disclosure controls and procedures;
- the establishment of procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters;
- administration and oversight of our Code of Business Conduct and Ethics; and
- the review and approval of related persons transactions.

The audit committee has authority to engage independent counsel and other advisers as necessary to carry out its responsibilities. In addition, the audit committee has sole authority to determine the fees payable to such independent counsel and advisers, which fees shall be paid by the Company.

The board of directors has determined that each member of the audit committee meets the independence and financial literacy requirements applicable to audit committee members under the NYSE American LLC Company Guide. The board of directors has further determined that Mr. Hadeed qualifies as an “audit committee financial expert” in accordance with the applicable rules and regulations of the SEC.

Compensation Committee

The compensation committee assists the board in its discharge of responsibilities with respect to executive and director compensation. Its responsibilities include:

- the oversight and development and administration of our executive compensation plans;
- the review and approval of the compensation for all executive officers other than the chief executive officer;
- the recommendation to the independent members of the board of the compensation of the chief executive officer;
- the evaluation of the chief executive officer;
- the review and recommendation to the board of the terms of any employment, severance, change in control, termination or retirement arrangements for all executive officers;
- the review and recommendation to the board of the compensation paid to directors; and
- the assessment of the independence of any compensation consultant, independent legal counsel or other adviser retained by the committee.

The compensation committee approves equity awards for our other employees, including the delegation of authority to our chief executive officer to award up to a specified number of stock options to non-executive employees for special performance or recruitment to the Company.

The compensation committee has sole authority, in its discretion, to retain or obtain advice of a compensation consultant, independent legal counsel or other adviser to assist the compensation committee in carrying out its responsibilities. The compensation committee is responsible for the oversight and compensation of any compensation consultant, independent legal counsel or other adviser it retains. We are responsible for paying such compensation as determined by the compensation committee. The compensation committee retained a compensation consultant, The Burke Group, for Fiscal 2017. The Burke Group conducted a review and analysis of our executive compensation program in order to validate our current compensation strategy. The Burke Group reviewed senior executive team positions and provided summary reports on current trends for executive compensation in similar companies, established the peer group, assessed base salaries, annual cash incentive compensation and long term incentives against published survey data and peer group data and provided observations and recommendations for all components of our executive compensation program.

The board of directors has determined that each member of the compensation committee meets the independence requirements applicable to compensation committee members under the NYSE American LLC Company Guide.

Nominating and Governance Committee

The nominating and governance committee identifies and recommends to the board individuals to serve as directors and as nominees for election as directors of the Company and develops, recommends and reviews corporate governance principles applicable to the Company. The nominating and governance committee's responsibilities include:

- the development and recommendation to the board of director qualification criteria;
- the development and periodic review of corporate governance principles;

- the oversight of the board's self-evaluation process; and
- development of the board's chief executive officer succession policies.

The board of directors has determined that each member of the nominating and governance committee meets the director independence requirements of the NYSE American LLC Company Guide.

Nominating Process

The process followed by the nominating and governance committee to identify and evaluate candidates includes requests to board members, the chief executive officer, and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and their qualifications, and interviews of selected candidates. The nominating and governance committee also will consider director candidates recommended by stockholders on the same basis it considers other potential candidates. Stockholders who wish to recommend a prospective nominee for the nominating and governance committee's consideration should submit the candidate's name and qualifications to: Corporate Secretary, IEC Electronics Corp., 105 Norton Street, Newark, New York 14513.

In evaluating the suitability of candidates to serve on the board of directors, including stockholder recommendations, the nominating and governance committee seeks candidates who are independent pursuant to the NYSE American independence standards and meet certain selection criteria established by the committee. The specific criteria required for the selection of each board member will be determined from time to time within the context of the current member composition of the board of directors and the evolving needs of the Company based on business strategy and current senior management competencies. The committee also considers an individual's skills, character and professional ethics, judgment, leadership experience, business experience and acumen, familiarity with relevant industry issues, and other relevant criteria that may contribute to our success. This evaluation is performed in light of the skill set and other characteristics that would most complement those of the current directors, including the diversity, maturity, skills and experience of the board as a whole. We do not have a formal policy regarding board diversity in the identification of nominees, but diversity is one of several factors that the nominating and governance committee takes into account when evaluating candidates. The committee believes that diversity includes perspective gained from different educational, cultural and business backgrounds and life experiences.

Nominations of persons for election to our board may be made at a meeting of stockholders only (i) by or at the direction of the board; or (ii) by any stockholder who has complied with the notice procedures set forth in our by-laws and in the section entitled "Questions and Answers About This Proxy Material and Voting – When are stockholder proposals and director nominations due for next year's annual meeting?"

Code of Ethics and Whistleblower Policy

We have a Code of Business Conduct and Ethics, which applies to all of our directors, officers (including our principal executive officer, principal financial officer, principal accounting officer and other executive officers) and employees. It is a statement of our high standards for ethical behavior, legal compliance and financial disclosure. We also maintain a whistleblower policy, which encourages our employees to report illegal activities and business conduct that would damage our good name, business interests and relationships with stockholders, suppliers, residents and the community at large. The Code of Business Conduct and Ethics and the Whistleblower Policy are distributed to all of our employees who in turn acknowledge, in writing, receipt of this information.

Availability of Corporate Governance Documents

We make available to the public a variety of corporate governance information on our website (www.iec-electronics.com) under the heading “Investors” and the subheading, “Corporate Governance.” Information on our website includes our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, the Audit Committee Charter, the Compensation Committee Charter, the Nominating and Governance Committee Charter, our Related Person Transactions Policies and Procedures, and our Whistleblower Policy. Information regarding any amendment to, or waiver from, the Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer or principal accounting officer will also be posted in that section of our website.

Communications with the Board of Directors

Stockholders and other parties may communicate directly with the board of directors or the relevant board member by addressing communications to:

[Name of director(s) or Board of Directors]
IEC Electronics Corp.
c/o Corporate Secretary
105 Norton Street
Newark, New York 14513

All stockholder correspondence will be compiled by our Corporate Secretary and forwarded as appropriate.

PROPOSAL 2

RATIFICATION OF THE SELECTION OF THE COMPANY'S
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2018

The audit committee has selected the accounting firm of Deloitte & Touche LLP ("Deloitte") to serve as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2018 ("Fiscal 2018"). The stockholders are being asked to ratify the audit committee's selection of Deloitte. The audit committee engaged Deloitte on May 15, 2017 to serve as our independent registered public accounting firm, replacing Crowe Horwath LLP ("Crowe Horwath") which the audit committee dismissed as of such date. Crowe Horwath served as our independent registered public accounting firm from November 18, 2014 through May 14, 2017.

Crowe Horwath's reports on the Company's financial statements as of and for the fiscal years ended September 30, 2016 and September 30, 2015 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Company's fiscal years ended September 30, 2016 and September 30, 2015 and through May 15, 2017, (a) there were no disagreements between the Company and Crowe Horwath on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Crowe Horwath, would have caused Crowe Horwath to make reference to the subject matter of the disagreement(s) in its reports on the financial statements for such years; and (b) there were no "reportable events" as described in Item 304(a)(1)(v) of Regulation S-K.

Stockholder ratification of the selection of Deloitte is not required by our by-laws or otherwise. However, the board is submitting the selection of our independent registered accounting firm to the stockholders for ratification as a matter of good corporate governance. If the stockholders fail to ratify this appointment, the audit committee may, but is not required to, reconsider whether to retain Deloitte. Even if the appointment is ratified, the audit committee in its discretion may direct the appointment of a different accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders. Representatives of Deloitte will be present at the annual meeting, will be given the opportunity to make statements if they so desire and will be available to respond to appropriate questions.

The following table shows the fees that were billed by Crowe Horwath and Deloitte for professional services listed below related to our last two fiscal years, Fiscal 2017 and the fiscal year ended September 30, 2016 ("Fiscal 2016"):

Description of Fees	Fiscal 2017	Fiscal 2016
Audit Fees		
Crowe Horwath	$138,600	$240,000
Deloitte	232,919	—
Audit Related Fees		
Deloitte	30,072	15,200
All Other Fees		
Deloitte	2,046	—
Total Fees	$403,637	$255,200

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Audit fees represent amounts billed for the audit of our annual consolidated financial statements for the fiscal year and the reviews of financial statements included in our quarterly reports on Form 10-Q for the fiscal year. Audit Related Fees in Fiscal 2017 were for audit services related to our 401(k) employee savings plan. All Other Fees in Fiscal 2017 were for an accounting research tool subscription. There were no tax fees or other fees paid to Crowe Horwath during Fiscal 2017 or Fiscal 2016.

Pre-Approval of Fees by Audit Committee

In accordance with applicable laws, rules and regulations, our audit committee charter and pre-approval policies established by the audit committee require that the audit committee review in advance and pre-approve all audit and permitted non-audit fees for services provided to us by our independent registered public accounting firm. The audit committee pre-approved all services performed by, and all fees to be paid to, Deloitte and Crowe Horwath in Fiscal 2017.

Independence Analysis by Audit Committee

The audit committee has considered whether the provision of the services described above was compatible with maintaining the independence of Deloitte and Crowe Horwath and determined that it was compatible with the firm’s independence. For Fiscal 2017 and Fiscal 2016, Deloitte and Crowe Horwath provided no services other than those services described above.

Required Vote

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy at the annual meeting and entitled to vote thereon is needed to ratify the appointment of Deloitte as our independent registered public accounting firm for the fiscal year ending September 30, 2018. An abstention will have the same effect as a vote against the proposal.

Unless you specify otherwise, the persons named in the proxy card intend to vote shares as to which proxies are received for the approval of ratification of the selection of Deloitte as our independent registered public accounting firm for the fiscal year ending September 30, 2018.

The audit committee and our board of directors unanimously recommend that the stockholders vote FOR the ratification of the appointment of Deloitte as our independent registered public accounting firm for the fiscal year ending September 30, 2018.

AUDIT COMMITTEE REPORT

In connection with our financial statements for the fiscal year ended September 30, 2017, the audit committee has (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent registered public accounting firm (the “Auditors”) the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, Communications with Audit Committees; and (3) received the written disclosures and the letter from the Auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the Auditors’ communications with the audit committee concerning independence, and has discussed with the Auditors their independence.

Based on the review and discussions referred to in items (1) through (3) of the above paragraph, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form

10-K for the fiscal year ended September 30, 2017, for filing with the Securities and Exchange Commission.
Charles P. Hadeed, Chair
Andrew M. Laurence
Jeremy R. Nowak

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PROPOSAL 3

ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

General

In accordance with Section 14A of the Securities Exchange Act of 1934, as amended, we are requesting that our stockholders approve on a non-binding, advisory basis the compensation paid to our named executive officers as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation tables and narrative discussion in this proxy statement under the caption "Compensation of Named Executive Officers" of this proxy statement.

The board of directors requests that stockholders approve the following advisory resolution:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402(m)-(q) of Regulation S-K, including the compensation tables and narrative discussion, is hereby APPROVED.

At our 2013 annual meeting of stockholders, we recommended, and our stockholders approved, that we hold this non-binding, advisory vote on executive compensation on an annual basis. The next required vote on frequency will occur at our 2019 annual meeting of stockholders.

We urge stockholders to read the section entitled "Compensation of Named Executive Officers" of this proxy statement, including the compensation tables and narrative included within that section, which provides detailed information on IEC's compensation of our named executive officers.

Each named executive officer is a party to an employment agreement with us. We believe these agreements and other incentives granted to these named executive officers align our named executive officers' interests with those of our stockholders. Our compensation committee and board of directors continue to evaluate our executive compensation program with a view toward motivating our named executive officers to meet our strategic operational and financial goals in the best interests of our stockholders.

Non-Binding Vote

This advisory vote, commonly referred to as a "say-on-pay" vote, is not binding on the Company, the board of directors or the compensation committee of the board of directors, and may not be construed as overruling any decision made by the board. However, the board and the compensation committee will take the voting results into account when evaluating our executive compensation program and considering future compensation arrangements.

Required Vote

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy at the annual meeting and entitled to vote thereon is needed to approve the compensation paid to our named executive officers. Abstentions will count as votes against this proposal. Broker non-votes will not be counted and will not impact the outcome of the vote on this proposal.

The board of directors unanimously recommends that the stockholders vote FOR the approval of the compensation paid to our named executive officers.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

Named Executive Officers

The following tables and related narrative contain information regarding the compensation paid to our named executive officers for our two most recently completed fiscal years, which ended on September 30, 2017 and September 30, 2016. Our named executive officers are our chief executive officer and our two other most highly compensated executive officers serving at the end of Fiscal 2017:

Jeffrey T. Schlarbaum - President and Chief Executive Officer
Michael T. Williams - Vice President, Finance and Chief Financial Officer
Jens Hauvn - Senior Vice President, Operations

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning total compensation earned or paid to our named executive officers for Fiscal 2017 and Fiscal 2016. We present more detailed information regarding these items of compensation in the footnotes and in the narrative that follows the table.

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3) (4)	Option Awards (5)	Non-Equity Incentive Plan Compensation (6)	All Other Compensation (7)	Total
Jeffrey T. Schlarbaum	2017	$370,388	$ —	$282,638	$ —	$ —	$ 7,847	$660,873
CEO	2016	352,692	—	433,076	—	351,273	1,801	1,138,842
Michael T. Williams	2017	212,293	—	112,362	—	—	4,684	329,339
CFO	2016	205,000	—	176,793	—	141,568	2,720	526,081
Jens Hauvn	2017	227,827	—	120,581	—	—	4,890	353,298
Senior VP, Operations	2016	220,000	5,700	173,249	83,363	151,927	3,046	637,285

(1) The “Salary” column reflects the base salary earned by each of our named executive officers during the applicable fiscal year, which may differ from the salary described in “Compensation of Named Executive Officers - Base Salary Compensation” due to effective dates for increases that do not fall on the first day of the fiscal year and pay periods that may overlap fiscal years.

(2) Amount reflects a cash sign-on bonus for Mr. Hauvn, a portion of which was paid in Fiscal 2016.

(3) In March 2017, we granted Messrs. Schlarbaum, Williams and Hauvn time-vesting restricted stock units covering 17,015 shares, 6,764 shares and 7,259 shares, respectively, and performance-vesting restricted stock units covering 68,059 shares, 27,057 shares and 29,036 shares, respectively, pursuant to the 2010 Omnibus Incentive Compensation Plan (the “2010 Plan”). In April 2016, we granted Messrs. Schlarbaum, Williams and Hauvn time-vesting restricted stock units covering 12,258 shares, 4,970 shares and 5,334 shares, respectively, and performance-vesting restricted stock units covering 49,030 shares, 19,881 shares and 21,336 shares, respectively, pursuant to the 2010 Plan. In June 2016, we granted restricted stock awards to Messrs. Schlarbaum and Williams of 7,500 shares and 3,580 shares, respectively, pursuant to the 2010 Plan.

(4) The amounts shown reflect the aggregate grant date fair value computed in accordance with FASB ASC 718 (“ASC 718”). Under ASC 718, the fair value of such stock awards is determined as of the date of grant using the closing market price of our common stock on the date of grant. For awards subject to performance conditions, the amounts included in this column are calculated based on the probable satisfaction of the performance conditions at the grant date, which represents the highest level of performance achievement. These amounts reflect our accounting for these awards and do not correspond to the actual values that may be realized by the named executive officers and do not represent actual cash compensation paid to the recipient. Pursuant to SEC rules, we disregarded the estimates of forfeitures related to service-based vesting conditions.

(5) In August 2016, we granted Mr. Hauvn an option to purchase 50,000 shares under the 2010 Plan as part of a relocation award under his employment agreement after the compensation committee waived the requirement that Mr. Hauvn relocate to the greater Rochester, New York area. Valuation assumptions used to determine grant date fair value as required by ASC 718 are disclosed in Note 1- Our Business and Summary of Significant Accounting Policies - Stock-Based Compensation, to our consolidated financial statements included in our annual report on Form 10-K for Fiscal 2017.

(6) As described in the “Narrative to Summary Compensation Table” section below, Messrs. Schlarbaum, Williams and Hauvn waived the annual performance bonus for Fiscal 2017 to allow instead for a management incentive plan payout that looks at performance over a two year period (Fiscal 2017 and Fiscal 2018). For Fiscal 2016, Mr. Schlarbaum earned $351,273, Mr. Williams earned $141,568 and Mr. Hauvn earned $151,927 in connection with the annual management incentive plan payout.

(7) Amounts shown in Fiscal 2017 and Fiscal 2016 for Messrs. Schlarbaum, Williams and Hauvn include the Company match portion of the 401(k) employee savings plan, as described below.

NARRATIVE TO SUMMARY COMPENSATION TABLE

Elements of Compensation

Our compensation program for the named executive officers consists of the following elements:

- Base salary;
- Annual cash incentive; and
- Long-term equity incentive.

Our named executive officers are also entitled to participate in a 401(k) employee savings plan, described below.

Base Salary

Base salaries for our named executive officers generally are set forth in their employment agreements with the Company and are subject to review for increases. For named executive officers other than the chief executive officer, the chief executive officer makes recommendations for salary increases to the compensation committee. The compensation committee reviews the chief executive officer's base salary and makes recommendations to the board of directors for increases.

The compensation committee set Mr. Schlarbaum's base salary at $350,000 when he joined the Company in February 2015. Effective January 27, 2017, Mr. Schlarbaum's base salary was adjusted to $374,850 to reflect the scope of his responsibilities and performance, and consideration was given to his current salary level and amounts paid to peers at peer group companies. Previously, in May 2016, Mr. Schlarbaum's base salary had been adjusted to $357,000 to reflect a 2% cost of living adjustment. Pursuant to their employment agreements entered into with the Company in September 2015, Mr. Hauvn's base salary was set at $220,000 and Mr. Williams' base salary was set at $205,000. Mr. Hauvn's base salary was adjusted as of January 27, 2017, to $231,000. Mr. Williams' base salary was also adjusted effective January 27, 2017, to $215,250. Similar to Mr. Schlarbaum, the salary adjustments for Messrs. Hauvn and Williams reflect the scope of responsibilities and performance of each officer, and consideration was given to their current salary levels and amounts paid to peers at peer group companies

Annual Cash Incentive Awards

Our named executive officers generally are eligible for annual cash incentive awards under our annual management incentive plan, which we refer to as the MIP. Our named executive officers earn their MIP awards based on achievement of performance goals for the fiscal year. The compensation committee generally sets target incentive award opportunities based on a percentage of each executive officer's base salary during the fiscal year.

In March 2017, each named executive officer entered into an agreement with the Company pursuant to which the officer waived the annual performance bonus for Fiscal 2017 to allow instead for a MIP that looks at performance over a two-year period (Fiscal 2017 and Fiscal 2018). As a result, we did not pay any annual incentive plan awards under the MIP with respect to Fiscal 2017.

For the two-year period (Fiscal 2017 and Fiscal 2018), the compensation committee set certain performance goals related to sales, as disclosed in the Form 10-K for Fiscal 2017 and Fiscal 2018, EBITDA, defined for purposes of the MIP as earnings before interest, taxes, depreciation and amortization, and cash flows, defined for purposes of the MIP as the reduction in debt, net of cash year over year, as a precondition for payment of any MIP awards. The annual award target during the two-year period for Messrs. Schlarbaum, Williams and Hauvn is 65% of plan salary, 45% of plan salary, and 45% of plan salary, respectively.

The following table sets forth the two-year period (Fiscal 2017 and Fiscal 2018) goals at the threshold, target and maximum performance levels, as well as the weight given each performance measure.

Performance Measure	Weight	Threshold	Target	Maximum	2017 Actual Performance
($in millions)					
Sales	30%	$ 224.0	$231.0	$ 238.0	$ 96.5
EBITDA	40%	15.8	17.6	19.4	3.6
Cash Flow	30%	4.6	5.6	7.0	3.7

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A reconciliation of EBITDA for Fiscal 2017 follows:

(in thousands)	Year Ended September 30, 2017
Net income (loss)	$ 81
Provision for/(benefit from) income taxes	62
Depreciation and amortization expense	2,542
Interest expense	917
EBITDA	$ 3,602

The threshold, target and maximum goals are subject to an adjustment factor of 10%, 100% and 200%, respectively, resulting from our actual performance between the target and the respective goal.

The compensation committee evaluates achievement of performance goals after fiscal year end and may increase or decrease payouts by up to 25%, subject to the approval of the independent members of the board of directors with respect to the chief executive officer's incentive award. The payment of MIP awards generally will be made within 15 days after receipt of the audited financial statements for the fiscal year. Generally, in order to receive awards under the MIP, participants must be employed at the time the awards are paid.

In the event of an accounting restatement, participating employees may be required to reimburse us for all or any part of the amount of any payment under the MIP. Forfeitures and clawbacks of payments will also be required to the extent necessary to comply with applicable laws or regulations.

The compensation committee reserves the right in its discretion to modify or waive categories or goals.

We paid awards of $351,273, $141,568 and $151,927 to Messrs. Schlarbaum, Williams and Hauvn, respectively, for Fiscal 2016 under applicable Fiscal 2016 MIP performance measures. Please see the disclosure in our 2017 proxy statement for additional information about the Fiscal 2016 MIP.

Long-Term Equity Incentive Awards

Long-term incentives in the form of equity are a significant part of our compensation program for our named executive officers. The objective of these long-term incentives is to retain and motivate our named executive officers, and to encourage long-term performance by enabling our named executive officers to participate in the long-term growth and financial success of the Company. Grants pursuant to the long-term incentive portion of our compensation program are generally made in the form of restricted stock units and by using average annual EBITDA as the performance goal for performance-vesting awards.
Messrs. Schlarbaum, Williams and Hauvn received grants of performance-vesting restricted stock units covering 68,059 shares, 27,057 shares and 29,036 shares, respectively under the 2010 Plan in Fiscal 2017, which reflected a number of shares with a grant date value of approximately 65% of base salary for Mr. Schlarbaum, and approximately 45% of base salary each for Messrs. Williams and Hauvn. Subject to continued employment, these restricted stock units generally vest based upon the level of achievement of the performance goal set forth on an exhibit to the applicable award agreements, which is based on the Company's average annual EBITDA, for the period from October 1, 2016 to September 30, 2019. The threshold, target and maximum average annual EBITDA levels under the performance goal are $7.2 million, $9.0 million and $11.25 million, respectively. Our EBITDA for Fiscal 2017 was

$3.6 million. Achievement of the performance goal at threshold, target or maximum would cause 50%, 100% or 150% of the shares, respectively, to vest, with the percentage of shares that vest based on achievement between threshold and target or between target and maximum determined using straight line interpolation. These restricted stock units are intended to create an incentive for the retention of our named executive officers and to encourage long-term performance.

In Fiscal 2016, Messrs. Schlarbaum, Williams and Hauvn received grants of performance-vesting restricted stock units covering 49,030 shares, 19,881 shares and 21,336 shares, respectively, under the 2010 Plan, which reflected a number of shares with a grant date value of approximately 65% of base salary for Mr. Schlarbaum, and approximately 45% of base salary each for Messrs. Williams and Hauvn. Subject to continued employment, these restricted stock units generally vest based upon the level of achievement of the performance goal set forth on an exhibit to the applicable award agreements, which is based on the Company's average annual EBITDA, for the period from October 1, 2015 to September 30, 2018. The threshold, target and maximum average annual EBITDA levels under the performance goal are $7.6 million, $9.5 million and $11.875 million, respectively. Our EBITDA for Fiscal 2016 was $9.4 million and was $3.6 million for Fiscal 2017. Achievement of the performance goal at threshold, target or maximum would cause 50%, 100% or 150% of the shares, respectively, to vest, with the percentage of shares that vest based on achievement between threshold and target or between target and maximum determined using straight line interpolation. These restricted stock units are intended to create an incentive for the retention of our named executive officers and to encourage long-term performance.

In addition, in Fiscal 2017 we awarded time-vesting restricted stock units to Messrs. Schlarbaum, Williams and Hauvn covering 17,015 shares, 6,764 shares and 7,259 shares, respectively, under the 2010 Plan. In Fiscal 2016, we awarded time-vesting restricted stock units to Messrs. Schlarbaum, Williams and Hauvn covering 12,258 shares, 4,970 shares and 5,334 shares, respectively, under the 2010 Plan. For each named executive officer, the performance-vesting restricted stock units and the time-vesting restricted stock units reflected 80% and 20%, respectively, of the total number of shares underlying all of the restricted stock units granted during Fiscal 2017 and Fiscal 2016, respectively. Subject to continued employment, these restricted stock units generally vest on the third anniversary of the grant date and are intended to create an incentive for the retention of our named executive officers

In Fiscal 2016, Messrs. Schlarbaum and Williams also received grants of 7,500 shares and 3,580 shares, respectively, of time-vesting restricted stock awards under the 2010 Plan. Subject to continued employment, these awards of restricted stock generally vest one-quarter upon the first, second, third and fourth anniversary of their respective grant dates and are intended to provide additional one-time compensation in recognition of the services provided by Messrs. Schlarbaum and Williams.

In addition, Mr. Hauvn received an option to purchase 50,000 shares of the Company’s common stock under the 2010 Plan in Fiscal 2016. This option was intended as payment of a relocation award under Mr. Hauvn’s employment agreement after the Company’s compensation committee waived the requirement that Mr. Hauvn relocate to the greater Rochester, New York area. Subject to continued employment, the option generally vests and becomes exercisable with respect to 10%, 30%, 60% and 100% of the covered shares on August 9, 2017, August 9, 2018, August 9, 2019 and August 9, 2020, respectively.

Perquisites and Personal Benefits

Pursuant to the terms of our employment agreements with Messrs. Schlarbaum, Williams and Hauvn, we are not obligated to pay any perquisites or personal benefits to our current named executive officers. We previously paid the premiums for life insurance policies maintained by Mr. Williams.

Retirement Benefits

All employees, including our named executive officers, are eligible to participate in the Company’s 401(k) employee savings plan (the “Savings Plan”). The Savings Plan is a defined contribution tax-qualified retirement savings plan pursuant to which employees are able to contribute a portion of their eligible cash compensation to the Savings Plan. The Company matches up to 1.5% of contributions made by participating employees. None of our named executive officers is covered by a pension plan or non-qualified deferred compensation plan.

Employment Agreements and Other Arrangements

The employment agreements we entered into in Fiscal 2015 with Messrs. Schlarbaum, Williams and Hauvn contain clawback provisions for recovering certain compensation in the event of an accounting restatement resulting from the executives’ willful or grossly negligent conduct or financial dishonesty.

Jeffrey T. Schlarbaum, President and Chief Executive Officer

On March 20, 2015, we entered into a three-year employment agreement with Mr. Schlarbaum in connection with his election to the office of President and Chief Executive Officer on February 6, 2015. Mr. Schlarbaum’s employment agreement entitles him to an annual base salary of $350,000, which the compensation committee will review for increases. In May 2016, the compensation committee increased Mr. Schlarbaum's base salary to reflect a 2% cost of living adjustment and in January 2017, the compensation committee increased Mr. Schlarbaum's base salary to $374,850. The employment agreement also entitles Mr. Schlarbaum to earn annual and long-term incentive awards on the terms established by the compensation committee for the applicable fiscal year. Mr. Schlarbaum's employment agreement provided for a one-time sign-on award of a stock option to purchase shares of the Company's common stock equal to four percent of the Company's common stock outstanding on the date of grant. Thus, on March 20, 2015, we granted Mr. Schlarbaum an option to purchase 400,000 shares of our common stock under the 2010 Plan and an option to purchase 16,145 shares as an inducement award outside of the 2010 plan, each at an exercise price of $4.10 per share. One-fourth of the sign-on option (representing the option to purchase 104,036 shares of our common stock) vested on March 20, 2016 and the remaining portion vests and becomes exercisable in equal installments on each of the second, third and fourth anniversaries of March 20, 2015, the date of the employment agreement.

In the event of Mr. Schlarbaum's termination without "cause" by us or by Mr. Schlarbaum for "good reason," as such terms are defined in his employment agreement, we will pay or provide the following termination benefits:

- salary continuation at his base salary then in effect for one year following termination;
- a pro rata annual incentive award;
- accelerated vesting of his sign-on option;
- accelerated vesting of any outstanding long-term incentive awards; and
- continued coverage under our health insurance plan for twelve months following termination.

In the event of Mr. Schlarbaum's termination without "cause" by us or by Mr. Schlarbaum for "good reason" within two years of a "change-in-control," as such terms are defined in his employment agreement, we will pay or provide all of the compensation and benefits referred to immediately above, except that continued coverage under our health insurance plan will continue for twenty-four months following termination.

In connection with his joining the Company in Fiscal 2016, Mr. Schlarbaum also received a cash sign-on bonus of $50,000.

Michael T. Williams, Vice President, Finance and Chief Financial Officer

In September 2015, we entered into an at-will employment agreement with Mr. Williams that superseded his prior employment agreement with us dated February 11, 2014. In consideration for entering into the employment agreement, Mr. Williams received a one-time cash payment of $15,000. The employment agreement entitles Mr. Williams' to a base salary of $205,000. In January 2017, Mr. Williams' base salary was increased to $215,250. The chief executive officer periodically will review Mr. Williams' salary and make recommendations to the compensation committee regarding any increases. We may not decrease Mr. Williams' base salary as provided under the employment agreement except as necessary to enforce the clawback provisions.

Pursuant to the terms of the employment agreement, in the event of Mr. Williams' termination without "cause" by us or by Mr. Williams for "good reason," as such terms are defined in his employment agreement, we will pay or provide the following termination benefits:

- salary continuation at his base salary then in effect for one year following termination;
- a pro rata annual incentive award; and
- continued coverage under our health insurance plan for six months following termination.

In the event of Mr. Williams' termination without "cause" by us or by Mr. Williams for "good reason" within two years of a "change-in-control," as such terms are defined in his employment agreement, we will pay or provide all of the compensation and benefits referred to immediately above, except that vesting of any of Mr. Williams' outstanding long-term incentive awards will be accelerated.

Mr. Williams participates in our benefit plans generally applicable to other employees and executives. In addition, the employment agreement entitles Mr. Williams to receive annual and long-term incentive awards, generally on the terms established by the compensation committee for the applicable fiscal year.

Jens Hauvn, Senior Vice President, Operations

On September 8, 2015, we entered into an at-will employment agreement with Mr. Hauvn to serve as our Senior Vice President, Operations. Mr. Hauvn's employment agreement entitles him to an annual base salary of $220,000, which the chief executive officer periodically will review for increases. In January 2017, Mr. Hauvn's base salary was increased to $231,000. We may not decrease Mr. Hauvn's base salary as provided under the employment agreement except as necessary to enforce the clawback provisions. The employment agreement also entitles Mr. Hauvn to earn annual and long-term incentive awards on the terms established by the compensation committee for the applicable fiscal year. Mr. Hauvn's employment agreement provided for one-time awards of (i) a stock option to purchase 50,000 shares of the Company's common stock, (ii) a stock option to purchase 50,000 shares of the Company's common stock upon Mr. Hauvn's relocation of his primary residence to the greater Rochester, New York area, and (iii) a cash signing bonus of $9,500. On August 9, 2016, the compensation committee waived the requirement that Mr. Hauvn relocate to the greater Rochester, New York area to receive the option to purchase 50,000 shares. Accordingly, on such date, Mr. Hauvn was granted an option to purchase 50,000 shares of common stock at $5.25 per share under the 2010 Plan. Subject to his continuous employment, the option vests and becomes exercisable as follows: 10% on August 9, 2017, 30% on August 9, 2018 and 60% on August 9, 2019.

Mr. Hauvn participates in Company benefit plans generally applicable to other senior executives.

In the event of Mr. Hauvn's termination without "cause" by the Company or by Mr. Hauvn for "good reason," as such terms are defined in his employment agreement, the Company will pay or provide the following termination benefits:

- salary continuation at his base salary then in effect for six months following termination;
- a pro rata annual incentive award;
- the right to exercise any vested option(s) before the option's expiration date and one year following termination, whichever is earlier;
- accelerated vesting of any outstanding long-term incentive awards; and
- continued coverage under our health insurance plan for six months following termination.

As of September 30, 2017, Mr. Hauvn did not utilize health insurance coverage through the Company.

Change in Control Provisions

Our 2001 Stock Option and Incentive Plan, our 2010 Plan, and the stock option, restricted stock award and restricted stock unit award agreements executed thereunder, provide that upon a change in control, as defined in the plans, unless the board otherwise determines, all outstanding options and restricted stock will immediately become fully vested and exercisable.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth information concerning stock options and stock awards held by the named executive officers at September 30, 2017.

	Option Awards				Stock Awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable (1)	Option exercise price ($)	Option expiration date	Number of Shares or Units of Stock That Have Not Vested (#) (2) (3)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)(4)(5)	Equity Incentive plan awards: Market of payout value of unearned shares, units or other rights that have not vested ($)
Jeffrey T. Schlarbaum	200,000	200,000	$ 4.10	3/20/2025	—	—	—	—
	8,072	8,073	$ 4.10	3/20/2025	—	—	—	—
	—	—	—	—	5,625	$27,731	—	—
	—	—	—	—	12,258	$60,432	—	—
	—	—	—	—	17,015	$83,884	—	—
	—	—	—	—	—	—	49,030	$241,718
	—	—	—	—	—	—	68,059	$335,531
Michael T. Williams	—	—	—	—	2,685	$13,237	—	—
	—	—	—	—	4,970	$24,502	—	—
	—	—	—	—	6,764	$33,347	—	—
	—	—	—	—	—	—	19,881	$98,013
	—	—	—	—	—	—	27,057	$133,391
Jens Hauvn	15,000	35,000	$ 4.25	9/7/2022	—	—	—	—
	5,000	45,000	$ 5.25	8/9/2023	—	—	—	—
	—	—	—	—	5,334	$26,297	—	—
	—	—	—	—	7,259	$35,787	—	—
	—	—	—	—	—	—	21,336	$105,186
	—	—	—	—	—	—	29,036	$143,147

(1) Option awards included in the above table to reflect awards granted in Fiscal 2017. Awards are subject to the following vesting periods:

a. Mr. Schlarbaum's stock options were granted on March 20, 2015 and vest on the dates shown below:

Vesting Dates	Amounts
March 20, 2018	104,036 shares
March 20, 2019	104,037 shares

b. Mr. Hauvn's stock options were granted on September 8, 2015 and August 9, 2016 and vest on the dates shown below:

Vesting Dates	Amounts
September 8, 2018	15,000 shares
September 8, 2019	20,000 shares
August 9, 2018	15,000 shares
August 9, 2019	30,000 shares

(2) Stock awards included in the above table reflect awards granted in Fiscal 2016. Awards are subject to the following vesting periods:

a. Mr. Schlarbaum's restricted stock award was granted on June 7, 2016 and vests on the dates shown below:

Vesting Dates	Amounts
June 7, 2018	1,875 shares
June 7, 2019	1,875 shares
June 7, 2020	1,875 shares

b. Mr. William's restricted stock award was granted on June 14, 2016, and vests on the dates shown below:

Vesting Dates	Amounts
June 14, 2018	895 shares
June 14, 2019	895 shares
June 14, 2020	895 shares

(3) The awards to Messrs. Schlarbaum, Williams and Hauvn of 12,258, 4,970 and 5,344 restricted stock units, respectively, vest on April 18, 2019, assuming such named executive officer continues his service through such date. The awards to Messrs. Schlarbaum, Williams and Hauvn of 17,015, 6,764 and 7,259 restricted stock units, respectively, vest on March 16, 2020, assuming such named executive officer continues his service through such date.

(4) Equity incentive plan awards included in the above table reflect restricted stock unit awards granted in Fiscal 2016 using the target payout range, as defined in the applicable award agreements. These awards were granted on April 18, 2016 and subject to continued employment will have a three-year cliff vest based upon the level of achievement of the performance goal set forth on an exhibit to the applicable award agreements, which is based on the Company's average annual EBITDA, for the period from October 1, 2015 to September 30, 2018.

(5) Equity incentive plan awards included in the above table reflect restricted stock unit awards granted in Fiscal 2017 using the target payout range, as defined in the applicable award agreements. These awards were granted on March 16, 2017 and subject to continued employment will have a three-year cliff vest based upon the level of achievement of the performance goal set forth on an exhibit to the applicable award agreements, which is based on the Company's average annual EBITDA, for the period from October 1, 2016 to September 30, 2019. See the table above under "Annual Cash Incentive Awards" for a reconciliation of EBITDA to net income.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) [2]	
	(a)		(b)	(c)	
Equity compensation plans:					
Approved by shareholders	743,045	[1]	$ 4.27	371,434	[3]
Not approved by shareholders	16,145	[4]	$ 4.10	—	
Total	759,190		$ 4.43	371,434	

(1) Represents shares issuable upon exercise of awards granted under the 2001 Stock Option and Inventive Plan (the “2001 Plan”), which was approved by IEC stockholders in February 2002 and expired in December 2011, as well as awards granted under the 2010 Omnibus Incentive Compensation Plan (the “2010 Plan”), which was approved by IEC stockholders in January 2011 and expires in January 2021.

(2) Excludes shares reflected in first column. Includes shares remaining available for issuance under the 2010 Plan.

(3) Includes 112,813 shares available for issuance under the Employee Stock Purchase Plan.

(4) This is an inducement option award granted to our President and Chief Executive Officer, Jeffrey T. Schlarbaum, on March 20, 2015 with an exercise price of $4.10 per share. The option vests in equal amounts on the first four anniversaries of the date of grant and expires ten years from the date of grant.

DIRECTOR COMPENSATION

Cash Compensation Paid to Non-Employee Directors

Director fees for Fiscal 2017 were as follows:

Annual Board Retainer [1]	$32,000, payable in cash or stock [5]
Annual Committee Chair Retainer [2]	$8,000, payable in quarterly installments in cash
Board Meeting Fee [3]	$4,000 payable in quarterly installments at the end of each quarter in cash or stock [5]
Supplemental Fee [4]	$1,000, payable in cash at the end of the fiscal year
Reimbursement for expenses incurred in attending board meetings	

(1) Payable in quarterly installments at the beginning of each quarter.

(2) Payable in $2,000 installments at the beginning of each quarter.

(3) Payable in $1,000 installments in connection with each regular quarterly meeting actually attended.

(4) The supplemental payment will be paid in cash, at the end of the fourth quarter of each fiscal year.

(5) Non-employee directors may elect to receive payment of their annual board retainer and quarterly meeting fees in cash or in shares of the Company's common stock.

Equity Compensation Paid to Non-Employee Directors

We provide each non-employee director with an annual grant of restricted stock, with a grant-date fair value of $25,000. We make these grants pursuant to the 2010 Plan. The grant date typically coincides with our annual meeting of stockholders. The restrictions will lapse and the shares will vest in three equal installments as follows: 1/3 on the first anniversary of the date of grant, 1/3 on the second anniversary of the date of grant, and the balance on the third anniversary of the date of grant.

On March 7, 2017, each of the non-employee directors received the annual restricted share award of 6,596 shares at a market value of $3.79 per share, which was the closing price of the Company’s common stock on the grant date as reported on the NYSE American.

Director Compensation Table

The following table summarizes the cash and equity compensation earned by non-employee directors during Fiscal 2017.

Name(1)	Fees Earned or Paid in Cash ($)(2)	Stock Awards ($) (3)(4)	All Other Compensation ($)(5)	Total ($)
Keith M. Butler	37,000	24,999	52	62,051
Charles P. Hadeed	53,000	24,999	52	78,051
Lynn J. Hartrick	45,000	24,999	52	70,051
Andrew M. Laurence	37,000	24,999	52	62,051
Jeremy R. Nowak	37,000	24,999	52	62,051
Eric B. Singer (6)	28,000	24,999	26	53,025
Michael W. Osborne	—	—	26	26

(1) Due to his role as an executive officer of the Company, Jeffrey T. Schlarbaum did not receive compensation for his service as a director. We report his compensation for Fiscal 2017 in the section “Compensation of Named Executive Officers” of this proxy statement.

(2) The fees set forth in this column reflect compensation paid in cash to each director in respect of Fiscal 2017 for board retainers, committee chair retainers, supplemental fees and meeting fees. Directors have the ability to elect to receive their board and committee chair payment in stock, but during Fiscal 2017 each director elected to receive the board and committee chair retainer payments in cash. Payments for board meetings were paid in cash in Fiscal 2017. Each of Messrs. Hadeed and Hartrick received annual retainers for serving as a committee chair during Fiscal 2017.

(3) The amounts shown reflect the aggregate grant date fair value computed in accordance with ASC 718. Under ASC 718, the fair value of such stock awards is determined as of the date of grant using the closing market price of our common stock on the date of grant. These amounts reflect our accounting for these awards and do not correspond to the actual values that may be realized by the directors and do not represent actual cash compensation paid to the directors. Pursuant to SEC rules, we disregarded the estimates of forfeitures related to service-based vesting conditions. The closing market price on the grant date was $3.79 per share on March 7, 2017.

(4) The aggregate number of unvested restricted stock awards at the end of Fiscal 2017 for each non-employee director was:

Keith M. Butler	12,447
Charles P. Hadeed	12,447
Lynn J. Hartrick	12,447
Andrew M. Laurence	12,447
Michael W. Osborne	—
Jeremy R. Nowak	12,447

(5) Reflects the dollar value of insurance premiums paid by the Company during Fiscal 2017 in connection with the policy of term life insurance provided to each non-employee director in the amount of $50,000.

(6) Mr. Singer resigned from the board in August 2017.

Deferred Compensation Plan

Effective January 1, 2009, the board established the IEC Electronics Corp. Board of Directors Deferred Compensation Plan ("Directors Deferred Plan") which allows the non-employee directors of the Company the opportunity to defer all or part of their cash compensation. No director elected to participate in the Directors Deferred Plan in Fiscal 2017.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

Policies and Procedures for Review, Approval or Ratification of Related Person Transactions

Our board has adopted a written policy addressing the Company's procedures with respect to the review, approval and ratification of transactions with related persons that are required to be disclosed pursuant to SEC rules. The policy provides that any transaction, arrangement or relationship with a "related person" (as defined in the policy) in which the Company participates and in which the related person has or will have a direct or indirect material interest and in which the amount involved is expected to exceed $90,000 in any fiscal year, will be subject to the prior review and approval or ratification by the audit committee.

OTHER MATTERS

The board of directors knows of no other matters that will be presented for consideration at the annual meeting, but if other matters properly come before the meeting, the persons named as proxies will vote on such matter in their discretion according to their best judgment. Stockholders are encouraged to vote.

Dated: January 25, 2018	By Order of the Board of Directors
Newark, New York	Jennifer M. Brown, Corporate Secretary

We will make available at no cost, upon your written request, a copy of our annual report on Form 10-K for the fiscal year ended September 30, 2017 (without exhibits) as filed with the Securities and Exchange Commission. Copies of exhibits to our Form 10-K will be made available, upon your written request and payment to us of the reasonable costs of reproduction and mailing, if any. Written requests should be made to: Michael T. Williams, Chief Financial Officer, IEC Electronics Corp., 105 Norton Street, Newark, New York 14513.