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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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 No. 001-37454

CSW INDUSTRIALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**47-2266942**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5420 Lyndon B. Johnson Freeway, Suite 500, Dallas, Texas	**75240**
(Address of principal executive offices)	**(Zip Code)**

(214) 884-3777
(Registrant’s telephone number, including area code)

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 ☐ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “accelerated filer,” “large accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if smaller reporting company)	Smaller reporting company ☐	Emerging growth company ☐

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

As of August 2, 2017, there were 15,887,967 shares of the issuer’s common stock outstanding.

CSW INDUSTRIALS, INC.
FORM 10-Q

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PART I — FINANCIAL INFORMATION

CSW INDUSTRIALS, INC.

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
	(in thousands, except per share amounts)	
Revenues, net	$ 98,027	$ 84,107
Cost of revenues	(55,658)	(45,904)
Gross profit	42,369	38,203
Selling, general and administrative expenses	(28,106)	(29,711)
Impairment expenses	—	(1,082)
Operating income	14,263	7,410
Interest expense, net	(631)	(748)
Other income (expense), net	(313)	538
Income before income taxes	13,319	7,200
Provision for income taxes	(4,805)	(3,104)
Net income	$ 8,514	$ 4,096
Net earnings per common share:		
Basic	$ 0.54	$ 0.26
Diluted	0.54	0.26

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
	(in thousands)	
Net income	$ 8,514	$ 4,096
Other comprehensive income (loss):		
Foreign currency translation adjustments	1,676	(1,324)
Cash flow hedging activity, net of taxes of $22 and $120, respectively	(41)	(223)
Pension and other post retirement effects, net of taxes of $(5) and $(5), respectively	(9)	10
Other comprehensive income (loss)	1,626	(1,537)
Comprehensive income	$ 10,140	$ 2,559

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	March 31, 2017
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,926	$ 23,146
Bank time deposits	1,829	1,776
Accounts receivable, net of allowance of $1,521 and $1,513, respectively	71,270	63,782
Inventories, net	51,194	50,401
Prepaid expenses and other current assets	6,938	7,178
Total current assets	157,157	146,283
Property, plant and equipment, net of accumulated depreciation of $60,136 and $57,317, respectively	64,048	63,897
Goodwill	81,286	80,863
Intangible assets, net	88,894	90,610
Other assets	16,165	16,011
Total assets	$ 407,550	$ 397,664
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 17,563	$ 14,419
Accrued and other current liabilities	30,829	22,756
Current portion of long-term debt	561	561
Total current liabilities	48,953	37,736
Long-term debt	66,630	72,646
Retirement benefits payable	1,252	1,464
Other long-term liabilities	7,130	13,380
Total liabilities	123,965	125,226
Equity:		
Common shares, $0.01 par value	157	157
Shares authorized – 50,000		
Shares issued – 15,846 and 15,846, respectively		
Preferred shares, $0.01 par value	—	—
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	39,212	38,701
Treasury shares, at cost	(1,021)	(1,011)
Retained earnings	254,046	245,026
Accumulated other comprehensive loss	(8,809)	(10,435)
Total equity	283,585	272,438
Total liabilities and equity	$ 407,550	$ 397,664

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 8,514	$ 4,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,017	2,141
Amortization of intangible and other assets	2,215	1,986
Provision for inventory reserves	175	—
Share-based and other executive compensation	1,017	2,730
Net loss (gain) on sales of property, plant and equipment	105	(266)
Net pension benefit	(319)	(313)
Impairment of assets	—	1,082
Net deferred taxes	(173)	553
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,277)	(5,977)
Inventories, net	(853)	586
Prepaid expenses and other current assets	262	69
Other assets	6	54
Accounts payable and other current liabilities	4,665	(2,486)
Retirement benefits payable and other liabilities	95	(404)
Net cash provided by operating activities	10,449	3,851
Cash flows from investing activities:		
Capital expenditures	(2,300)	(2,772)
Proceeds from sale of assets held for investment	—	252
Net change in bank time deposits	(5)	(39)
Cash paid for acquisitions	(44)	—
Net cash used in investing activities	(2,349)	(2,559)
Cash flows from financing activities:		
Repayments of lines of credit	(6,015)	(5,140)
Purchase of treasury shares	(10)	(556)
Net cash used in financing activities	(6,025)	(5,696)
Effect of exchange rate changes on cash and equivalents	705	127
Net change in cash and cash equivalents	2,780	(4,277)
Cash and cash equivalents, beginning of period	23,146	25,987
Cash and cash equivalents, end of period	$ 25,926	$ 21,710

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. ORGANIZATION AND OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

CSW Industrials, Inc. ("CSWI," the "Company," "we," "our" or "us") is a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants and Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilating and air conditioning ("HVAC") and refrigeration applications, coatings and sealants and high performance specialty lubricants. Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. Our diverse product portfolio includes more than 100 highly respected industrial brands including RectorSeal No. 5 ™ thread sealants, KOPR KOTE™ anti-seize lubricants, Safe-T-Switch® condensate overflow shutoff devices, KATS® coatings, Air Sentry® breathers, RailPlex® tank car coatings, Deacon® high temperature sealants, AC Leak Freeze® refrigerant leak repair solutions and Greco Aluminum Railings™. Our products are well known in the specific markets we serve and have a reputation for high quality and reliability. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and other general industrial markets.

Restructuring

During the quarter ended September 30, 2016 we initiated restructuring programs related to our Coatings, Sealants & Adhesives and our Industrial Products segments. The programs were initiated in response to excess capacity due to contraction in the markets we serve, which caused us to perform a facility rationalization analysis. Restructuring charges are as follows (in thousands):

	Severance/ Retention	Asset Write-down	Other (a)	Total
Three Months Ended June 30, 2017				
Cost of revenues	$ 29	$ 69	$ 327	$ 425
Selling, general and administrative	—	—	37	37
Total	$ 29	$ 69	$ 364	$ 462
Inception to Date Restructuring Charges				
Cost of revenues	$ 597	$ 69	$ 994	$ 1,660
Selling, general and administrative	451	2,800	212	3,463
Total	$ 1,048	$ 2,869	$ 1,206	$ 5,123
Total Expected Restructuring Charges (b)				
Cost of revenues	$ 597	$ 69	$ 1,094	$ 1,760
Selling, general and administrative	451	2,800	212	3,463
Total	$ 1,048	$ 2,869	$ 1,306	$ 5,223

(a) Other consists of moving costs related to relocation of manufacturing activities, consulting fees for production and efficiency support, recruiting fees to increase staff in locations where production is being relocated and duplicate and inefficient labor incurred during the transition and relocation. These charges will be expensed as incurred.

(b) Total expected restructuring charges represent management's best estimate to date. As the execution of the program is still in process, the amount and nature of actual restructuring charges incurred could vary from total expected charges.

As of June 30, 2017, the restructuring reserve attributable to these programs consisted entirely of anticipated severance expense recorded during the fiscal year ended March 31, 2017 and is included in accrued and other current liabilities on our condensed consolidated balance sheet.

Basis of Presentation

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 ("Quarterly Report") includes all revenues, costs, assets and liabilities directly attributable to CSWI and have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP").

The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of CSWI's financial position as of June 30, 2017, and the results of operations for three months ended June 30, 2017 and 2016, respectively. All adjustments are of a normal, recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in CSWI's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 (the "Annual Report").

Accounting Policies

We have consistently applied the accounting policies described in our Annual Report in preparing these condensed consolidated financial statements. We have not made any changes in significant accounting policies disclosed in the Annual Report.

Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which has been subsequently amended with additional ASUs including ASU No. 2016-12, issued in May 2016, and ASU No. 2016-20, issued in December 2016. ASU No. 2014-09, as amended, supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are also expanded disclosure requirements in this ASU. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year. As a result, public entities will apply the new standard for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption as of the original public entity effective date is permitted. We are currently evaluating the impact of ASU No. 2014-09 and ASU 2016-12 on our consolidated financial condition and results of operations and do not believe the adoption of the new standard will have a material impact. We will adopt the standard for our annual reporting period beginning April 1, 2018 and interim periods within this annual reporting period using the modified retrospective approach.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Subtopic 330): Simplifying the Measurement of Inventory." This ASU simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities will continue to apply their existing impairment models to inventories that are accounted for using LIFO and retail inventory methods. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. The new guidance must be applied prospectively after the date of adoption. We adopted the amendments of this ASU during the quarter ended June 30, 2017, and it did not have a material impact on our consolidated financial condition and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Modified retrospective application is permitted with certain practical expedients. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2016-02 on our consolidated financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)," Improvements to Employee Share-Based Payment Accounting." The ASU affects the accounting for employee share-based payment transactions as it relates to accounting for income taxes, accounting for forfeitures, and statutory tax withholding requirements. We adopted the provisions of ASU 2016-09 as of April 1, 2017. Our adoption resulted in a $0.5 million one-time, cumulative adjustment to beginning retained earnings related to the accounting for income taxes.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments," which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows and how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The new guidance should be applied on a retrospective basis for each period presented. ASU 2016-15 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-15 to have a material impact on our consolidated financial condition and results of operations.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” to improve the accounting for the income tax consequences arising from these types of transfers. This ASU aligns the recognition of the income tax consequences with International Financial Reporting Standards. Specifically, International Accounting Standards No. 12, “Income Taxes,” requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (including inventory) when the transfer occurs. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-16 to have a material impact on our consolidated financial condition and results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The adoption of ASU No. 2016-18 will not have an impact on our consolidated financial condition and results of operations.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU require that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of assets is not a business. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The amendments in this update should be applied prospectively on or after the effective date, however early adoption is permitted. We do not expect the adoption of ASU No. 2017-01 to have a material impact on our consolidated financial condition and results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The amendments in this ASU should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU No. 2017-04 will only impact our consolidated financial condition and results of operations to the extent that we incur a future goodwill impairment.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The amendments in this update should be applied retrospectively on or after the effective date, however early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. We, in partnership with our actuaries, are currently evaluating the impact of ASU No. 2017-07 on our consolidated financial condition and results of operations.

2. ACQUISITIONS

Greco Aluminum Railings

On February 28, 2017, we acquired the equity of Greco Aluminum Railings (“Greco”), based in Windsor, Ontario, Canada, for $28.2 million, net of cash acquired, funded through our revolving credit facility. Greco is a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures in the U.S. and Canada. The excess of the purchase price over the fair value of the identifiable assets acquired was $13.6 million and was allocated to goodwill. Goodwill represents the value expected to be obtained from a more extensive portfolio of architecturally-specified building products, which help make buildings safer and more aesthetically pleasing, while enabling compliance with building codes and leveraging our larger distributor network. The preliminary allocation of the fair value of the net assets acquired included customer lists, trademarks, non-compete agreements and a favorable leasehold of $10.3 million, $1.0 million, $0.8 million and $0.1 million, respectively, as well as property, plant and equipment and inventory of $0.8 million and $0.5 million, respectively, net of a deferred tax liability of $3.4 million. Customer lists, the non-compete agreement and the favorable leasehold are being amortized over 15 years, five years and approximately nine years (remaining life of the leasehold), respectively, while trademarks and goodwill are not being amortized. Greco activity has been included in our Industrial Products segment since the acquisition date. Greco contributed $1.2 million and $0.2 million in net sales and operating income, respectively, for the fiscal year ended March 31, 2017 and $4.7 million and $1.1 million in net sales and operating income, respectively, for the quarter ended June 30, 2017. No pro forma information has been provided due to immateriality.

3. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2017	March 31, 2017
Raw materials and supplies	$ 24,038	$ 21,717
Work in process	5,480	6,272
Finished goods	28,767	29,538
Total inventories	58,285	57,527
Less: LIFO reserve	(5,295)	(5,295)
Less: Obsolescence reserve	(1,796)	(1,831)
Inventories, net	$ 51,194	$ 50,401

4. INTANGIBLE ASSETS

The following table provides information about our intangible assets (in thousands, except years):

		June 30, 2017		March 31, 2017	
	Wtd Avg Life (Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Finite-lived intangible assets:					
Patents	12	$ 9,629	$ (5,009)	$ 9,576	$ (4,779)
Customer lists and amortized trademarks	12	81,473	(24,653)	81,121	(22,935)
Non-compete agreements	5	1,726	(327)	1,819	(334)
Other	12	4,917	(1,000)	4,849	(828)
		$ 97,745	$ (30,989)	$ 97,365	$ (28,876)
Trade names and trademarks not being amortized		$ 22,138	$ —	$ 22,121	$ —

Amortization expense for the three month periods ended June 30, 2017 and 2016 was $2.1 million and $2.0 million, respectively. The following table shows the estimated future amortization for intangible assets as of June 30, 2017, for the remainder of the current fiscal year and the next five years ending March 31 (in thousands):

2018	$ 5,985
2019	7,250
2020	7,007
2021	6,784
2022	6,335
2023	6,092

5. SPIN-OFF EXECUTIVE COMPENSATION

On August 28, 2014, the Board of Directors of Capital Southwest (our former parent company) adopted an executive compensation plan consisting of grants of nonqualified stock options, restricted stock and cash incentive awards to executive officers of Capital Southwest (the “Spin-Off Executive Compensation Plan”). The Spin-Off Executive Compensation Plan was intended to align the compensation of Capital Southwest’s executive officers with Capital Southwest’s key strategic objective of increasing the market value of Capital Southwest’s shares through a transformative transaction for the benefit of Capital Southwest’s shareholders. Under the Spin-Off Executive Compensation Plan, Joseph B. Armes, Kelly Tacke and Bowen S. Diehl were to receive an amount equal to 6.0% of the aggregate appreciation in Capital Southwest’s share price from August 28, 2014 (using a base price of $36.16 per share) to the Trigger Event Date (later to be determined to be December 29, 2015, as discussed below) (the “Total Payment Amount”). The initial plan component consisted of nonqualified options awarded to purchase a total of 258,000 shares of Capital Southwest common stock. The second plan component consisted of total awards of 127,000 shares of Capital Southwest restricted common stock, which have voting rights, but do not have cash dividend rights. The final plan component consisted of cash incentive payments awarded to each of Mr. Armes, Ms. Tacke and Mr. Diehl in an amount equal to the excess of each awardee’s allocable portion of the Total Payment Amount over the aggregate value of the awardee’s restricted common stock and nonqualified option awards under the Spin-Off Executive Compensation Plan, calculated as of the Trigger Event Date. The equity based awards vest and become exercisable as follows: (1) 1/3 on the Trigger Event Date; (2) 1/3 on the first anniversary of the Trigger Event Date; and (3) 1/3 on the second anniversary of the Trigger Event Date. Generally, entitlement to such awards is conditioned on the awardee remaining in the employment of Capital Southwest or its subsidiaries on the vesting date, or in the event the employment of the awardee was transferred to CSWI, continuing employment by CSWI. Effective immediately with the spin-off of CSWI, both Joseph B. Armes and Kelly Tacke became employees of CSWI and Bowen Diehl remained an employee of Capital Southwest.

On September 8, 2015, the Board of Directors of Capital Southwest designated the Share Distribution as a transformative transaction for purposes of the Spin-Off Executive Compensation Plan and amended the award agreements granted under the Spin-Off Executive Compensation Plan to provide for accelerated vesting of the awards held by an executive in the event of a termination of such executive’s service effected by the executive for good reason, by the employer without cause, or as a result of the disability or death of the executive. As a result of the Share Distribution completed on September 30, 2015, the Trigger Event Date was determined to be December 29, 2015.

As of December 29, 2015, the cash component of the Spin-Off Executive Compensation Plan was calculated based on the volume weighted average price of Capital Southwest and CSWI common stock for the 20 trading days ended December 29, 2015. Effective with the Share Distribution, CSWI entered into an Employee Matters Agreement with Capital Southwest. Under this agreement, Capital Southwest retained the obligation to fund the cash incentive awards granted under the Spin-Off Executive Compensation Plan, and all liabilities with respect to such cash incentive awards remained liabilities of Capital Southwest. During the three months ended June 30, 2017, we recorded total executive compensation expense for the cash incentive payments of $0.2 million for Mr. Armes and total stock compensation expense of $0.1 million. During the three months ended June 30, 2016, we recorded total executive compensation expense for the cash incentive payments of $1.3 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of $1.1 million. Within those amounts were $1.2 million and $1.0 million of cash incentive and stock compensation expense, respectively, that were accelerated as a result of Ms. Tacke's, former chief financial officer, transition in June 2016.

6. SHARE-BASED COMPENSATION

In September 2015, CSWI adopted and Capital Southwest approved (as our sole stockholder) our 2015 Equity and Incentive Compensation Plan (the “2015 Plan”), which provides for the issuance of up to 1,230,000 shares of CSWI common stock through the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units or other share-based awards, to employees, officers and non-employee directors. As of June 30, 2017, 982,231 shares were available for issuance under the 2015 Plan. Additionally, in September 2015, in connection with the Spin-Off Executive Compensation Plan and Share Distribution, we issued 510,447 shares of common stock to adjust outstanding Capital Southwest equity-based awards to represent both Capital Southwest and CSWI equity-based awards. These conversion grants were issued on substantially the same terms and conditions as the prior Capital Southwest equity-based grants, and they were issued separate and apart from the 2015 Plan's 1,230,000 share authorization.

We recorded share-based compensation as follows for the three month periods ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30, 2017		
	Stock Options	Restricted Shares	Total
Share-based compensation expense	$ 54	$ 791	$ 845
Related income tax benefit	(16)	(280)	(296)
Net share-based compensation expense	$ 38	$ 511	$ 549

	Three Months Ended June 30, 2016		
	Stock Options	Restricted Shares	Total
Share-based compensation expense	$ 471	$ 799	$ 1,270
Related income tax benefit	(165)	(280)	(445)
Net share-based compensation expense	$ 306	$ 519	$ 825

Stock option activity was as follows:

	Three Months Ended June 30, 2017			
	Number of Shares	Weighted Average Exercise Price	Remaining Contractual Life	Aggregate Intrinsic Value
			(Years)	(in millions)
Outstanding at April 1, 2017	251,635	$ 24.44		
Granted	—	—		
Exercised	—	—		
Canceled	—	—		
Outstanding at June 30, 2017	251,635	$ 24.44	6.6	$ 3.6
Exercisable at June 30, 2017	170,412	$ 24.12	6.5	$ 2.5

At June 30, 2017, we had unrecognized compensation cost related to non-vested stock options of $0.1 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 1.0 years. No options were granted, exercised or vested during the three month period ended June 30, 2017. The total fair value of stock options vested for the three month period ended June 30, 2016 was $0.3 million. No options were granted or exercised during the three month period ended June 30, 2016.

Restricted share activity was as follows:

	Three Months Ended June 30, 2017	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at April 1, 2017	209,489	$ 26.53
Granted	43,856	49.59
Vested	(993)	33.55
Canceled	(1,392)	31.75
Outstanding at June 30, 2017	250,960	$ 30.50

During the restriction period, the holders of restricted shares are entitled to vote and receive dividends, except for conversion awards issued under the Spin-Off Executive Compensation Plan (as discussed in Note 5). At June 30, 2017, we had unrecognized compensation cost related to unvested restricted shares of $5.5 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 2.1 years. The total fair value of restricted shares vested for the three month periods ended June 30, 2017 and 2016 was $0.1 million and $0.4 million, respectively.

Performance-based restricted share units granted during the three month periods ended June 30, 2017 and 2016 includes 42,860 and 49,373 shares (at target), respectively, with performance-based vesting provisions, and vesting ranges from 0-200% and 0%-100%, respectively based on pre-defined performance targets with market conditions. Performance shares do not have the rights to vote or receive cash dividends until vesting, if at all. Performance-based restricted share units are earned upon the achievement of performance targets, and are payable in common shares. Compensation expense is recognized over a 36-month cliff vesting period based on the fair market value of our common shares on the date of grant.

7. LONG-TERM DEBT

Debt consists of the following (in thousands):

	June 30, 2017	March 31, 2017
Revolving Credit Facility, interest rate of 2.48% and 2.23%, respectively	$ 54,750	$ 60,625
Whitmore term loan, interest rate of 2.88% and 2.98%, respectively	12,441	12,582
Total debt	67,191	73,207
Less: Current portion	(561)	(561)
Long-term debt	$ 66,630	$ 72,646

Revolving Credit Facility Agreement

On December 11, 2015, we entered into a five-year $250.0 million revolving credit facility agreement ("Revolving Credit Facility"), with an additional $50.0 million accordion feature, with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. Borrowings under this facility bear interest at a rate of prime plus 0.50% or London Interbank Offered Rate ("LIBOR") plus 1.50%, which may be adjusted based on our leverage ratio. We pay a commitment fee of 0.20% for the unutilized portion of the Revolving Credit Facility. Interest and commitment fees are payable at least quarterly and the outstanding principal balance is due at maturity. This facility is secured by substantially all of our assets. During the three months ended June 30, 2017 we repaid $5.9 million of the outstanding borrowings under this facility, and as of June 30, 2017 and March 31, 2017, we had a remaining outstanding balance of $54.8 million and $60.6 million, respectively, which resulted in borrowing capacity of $245.2 million and $239.4 million, respectively, inclusive of the accordion feature. The Revolving Credit Facility contains certain customary restrictive covenants, including a requirement to maintain a minimum fixed charge coverage ratio of 1.25 to 1.00 and a maximum leverage ratio of Funded Debt to EBITDA (as defined in the agreement) of 3.00 to 1.00. Covenant compliance is tested quarterly and we were in compliance with all covenants as of June 30, 2017.

Whitmore Term Loan

As of June 30, 2017, Whitmore Manufacturing (one of our wholly-owned operating subsidiaries) had a secured term loan outstanding related to a warehouse and corporate office building and the remodel of an existing manufacturing and research and development facility. The term loan matures on July 31, 2029, with payments of $140,000 due each quarter. Borrowings under this term loan bear interest at a variable annual rate equal to one month LIBOR plus 2.0%. As of June 30, 2017 and March 31, 2017, Whitmore had $12.4 million and $12.6 million, respectively, in outstanding borrowings under the term loan.

8. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

We enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. As of June 30, 2017 and March 31, 2017, we had $42.2 million and $43.2 million, respectively, of notional amount in outstanding designated interest rate swaps with third parties. All interest rate swaps are highly effective. At June 30, 2017, the maximum remaining length of any interest rate swap contract in place was approximately 12.0 years. The fair value of interest rate swaps designated as hedging instruments are summarized below (in thousands):

	June 30, 2017	March 31, 2017
Current derivative assets	$ 42	$ —
Current derivative liabilities	186	199
Non-current derivative liabilities	538	420

The impact of changes in fair value of interest rate swaps is included in Note 15.

On June 17, 2016, we entered into a foreign exchange forward contract, not designated as a hedging instrument, to hedge our exposure associated with assets denominated in British pounds. The forward contract was settled on September 29, 2016 resulting in a net gain of $0.2 million, which was included in other income (expense), net on our condensed consolidated statements of income for the fiscal year ended March 31, 2017.

Current derivative assets are reported in our condensed consolidated balance sheets in prepaid expenses and other current assets. Current and non-current derivative liabilities are reported in our condensed consolidated balance sheets in accrued and other current liabilities and other long-term liabilities, respectively.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluation of our counterparties and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

9. EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share for the three month periods ended June 30, 2017 and 2016 (amounts in thousands, except per share data):

	Three Months Ended June 30,	
	2017	2016
Net income for basic and diluted earnings per share	$ 8,514	$ 4,096
Weighted average shares:		
Common stock	15,637	15,478
Participating securities	209	239
Denominator for basic earnings per common share	15,846	15,717
Potentially dilutive securities	77	61
Denominator for diluted earnings per common share	15,923	15,778
Earnings per common share:		
Basic	$ 0.54	$ 0.26
Diluted	0.54	0.26

10. SHAREHOLDERS' EQUITY

On November 11, 2016, we announced that our Board of Directors authorized a program to repurchase up to $35.0 million of our common stock over the next two years. These shares may be repurchased in the open market or in privately negotiated transactions. Repurchases will be made from time to time at our discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. The program may be limited or terminated at any time at our discretion without notice. Through June 30, 2017, no shares have been repurchased under this program.

11. FAIR VALUE MEASUREMENTS

The fair value of interest rate swaps and foreign exchange forward contracts (as discussed in Note 8) are determined using Level 2 inputs. The carrying value of our debt (included in Note 7) approximates fair value as it bears interest at floating rates. The carrying amounts of other financial instruments (i.e., cash and cash equivalents, restricted cash, bank time deposits, accounts receivable, net, accounts payable) approximated their fair values at June 30, 2017 and March 31, 2017 due to their short-term nature.

The fair values of acquisition-related contingent payments are estimated using Level 3 inputs. The contingent payment related to the acquisition of assets from SureSeal Manufacturing (“SureSeal”) utilized the weighted average probability method using forecasted sales and gross margin. The most significant factor in the valuation is projected net revenues resulting from sales of SureSeal products. The following table sets forth the changes in fair value recognized within the selling, general and administrative expenses of our condensed consolidated statements of income (in thousands):

	Three Months Ended June 30, 2017
	SureSeal
Balance at April 1, 2017	$ 6,390
Change due to accretion	255
Change in estimate	(255)
Balance at June 30, 2017	$ 6,390

On August 3, 2017, we entered into an agreement with the sellers of the SureSeal product line assets that, among other things, amended the purchase agreement to eliminate the potential contingent payment in exchange for a cash payment materially equivalent to what we had accrued as of June 30, 2017. The cash payment will be paid during the fiscal quarter ending September 30, 2017.

12. RETIREMENT PLANS

Refer to Note 12 to our consolidated financial statements included in our Annual Report for a description of our retirement and post-retirement benefits.

The following tables set forth the combined net pension benefit recognized in our condensed consolidated financial statements for all plans (in thousands):

	Three Months Ended June 30,	
	2017	2016
Service cost, benefits earned during the period	$ 14	$ 23
Interest cost on projected benefit obligation	636	675
Expected return on assets	(980)	(989)
Amortization of net actuarial loss	7	4
Net pension benefit	$ (323)	$ (287)

13. CONTINGENCIES

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. There are not any matters pending that we currently believe are reasonably possible of having a material impact to our business, consolidated financial position, results of operations or cash flows.

14. INCOME TAXES

For the three months ended June 30, 2017, we earned $13.3 million before taxes and provided for income taxes of $4.8 million, resulting in an effective tax rate of 36.1%. For the three months ended June 30, 2016, we earned $7.2 million before taxes and provided for income taxes of $3.1 million, resulting in an effective tax rate of 43.1%. The variance from the U.S. federal statutory rate for the three months ended June 30, 2017, was primarily attributable to domestic operations in states with higher statutory rates, offset by foreign operations activity in countries with lower statutory rates. The provision for income taxes for the three months ended June 30, 2016 was impacted by $0.6 million relating to reserves for uncertain tax positions and the effect of changes in tax rates, which increased our anticipated effective rate by 8.5% for the three months ended June 30, 2016.

15. OTHER COMPREHENSIVE INCOME (LOSS)

The following table provides an analysis of the changes in accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended June 30,	
	2017	2016
Currency translation adjustments:		
Balance at beginning of period	$ (8,132)	$ (5,248)
Adjustments for foreign currency translation	1,676	(1,324)
Balance at end of period	$ (6,456)	$ (6,572)
Interest rate swaps:		
Balance at beginning of period	$ (402)	$ (1,221)
Unrealized losses, net of taxes of $117 and $167, respectively (a)	(375)	(309)
Reclassification of losses included in interest expense, net of taxes of $14 and $(47), respectively	334	86
Other comprehensive loss	(41)	(223)
Balance at end of period	$ (443)	$ (1,444)
Defined benefit plans:		
Balance at beginning of period	$ (1,901)	$ (1,229)
Amortization of net loss, net of taxes of $(1) and $(5), respectively	(9)	10
Balance at end of period	$ (1,910)	$ (1,219)

(a) Unrealized gains (losses) are reclassified to earnings as underlying cash interest payments are made. We expect to recognize a loss of $0.1 million, net of deferred taxes, over the next twelve months related to designated cash flow hedges based on their fair values at June 30, 2017.

16. SEGMENTS

We conduct our operations through three business segments based on type of product and how we manage the business:

- *Industrial Products* includes specialty mechanical products, fire and smoke protection products, architecturally-specified building products and storage, filtration and application equipment for use with our specialty chemicals and other products for general industrial application.
- *Coatings, Sealants & Adhesives* is comprised of coatings and penetrants, pipe thread sealants, firestopping sealants and caulks and adhesives/solvent cements.
- *Specialty Chemicals* includes lubricants and greases, drilling compounds, anti-seize compounds, chemical formulations and degreasers and cleaners.

Our corporate headquarters does not constitute a separate segment. We evaluate segment performance and allocate resources based on each reportable segment's operating income. The Eliminations and Other segment information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses primarily related to corporate and other functions. No individual customer accounted for more than 10% of consolidated net revenues. Currently, we do not allocate interest expense, net or other income (expense), net by segment.

Three Months Ended June 30, 2017:

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	$ 53,261	$ 23,382	$ 21,382	$ 98,025	$ 2	$ 98,027
Operating income	13,633	990	1,911	16,534	(2,271)	14,263

Three Months Ended June 30, 2016:

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	$ 43,475	$ 23,424	$ 17,187	$ 84,086	$ 21	$ 84,107
Operating income	10,607	1,649	1,121	13,377	(5,967)	7,410

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

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes included in this Quarterly Report, as well as our consolidated financial statements and related notes for the fiscal year ended March 31, 2017 included in our Annual Report. This discussion and analysis contains forward-looking statements based on current expectations relating to future events and our future performance that involve risks and uncertainties. See "*Cautionary Note Regarding Forward-Looking Statements*" below. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those risk factors set forth in our Annual Report and in this Quarterly Report.

Overview

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants and Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for HVAC and refrigeration applications, coatings and sealants and high performance specialty lubricants. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and other general industrial markets. Our operations are concentrated in the U.S., but we also have operations in Australia, Canada and the United Kingdom, and our products are sold directly or through designated channels both domestically and internationally.

Many of our products are used to protect the capital assets of our customers that are expensive to repair or replace and are critical to their operations. The maintenance, repair and overhaul activities of our customers and consumable nature of many of our products is a source of recurring revenue for us. We also provide some custom and semi-custom products, which enhance our customer relationships. The reputation of our product portfolio is built on more than 100 well-respected brand names, such as RectorSeal No. 5, Kopr Kote, Jet-Lube Extreme, Smoke Guard, Safe-T-Switch, Mighty Bracket, Balco, Whitmore, Strathmore, American Coatings, Air Sentry, Oil Safe, Deacon, AC Leak Freeze, KATS Coatings and Greco.

We believe that our broad portfolio of products and markets served and our brand recognition will continue to provide opportunities; however, we face ongoing challenges affecting many companies, such as environmental and other regulatory compliance and overall global economic uncertainty. We expect to incur capital costs in the next few years to further integrate our operations, including the further consolidation of some of our manufacturing facilities. As a result of these efforts, we expect to generate sales synergies through greater cross-selling opportunities and expansion of product line applications and generate cost synergies through operating more efficiently and effectively.

During the three months ended June 30, 2017, we continued to experience strong sales growth in key end markets such as HVAC and plumbing, where our innovative mechanical products have increased market penetration and where we are currently benefiting from a robust commercial construction cycle. We experienced headwinds caused by spending declines at many of our customers in the rail end markets as they adjusted to weakened demand in response to lower market prices for natural resources. We expect that the conditions impacting the current energy environment will persist throughout the current fiscal year. We also expect to incur additional costs as a result of being a public company, such as additional employee-related costs, information systems costs and other organizational-related costs.

RESULTS OF OPERATIONS

The following discussion provides an analysis of our condensed consolidated results of operations and results for each of our segments.

The acquisition of Greco Aluminum Railings (as discussed in Note 2) impacts comparability. The operations of Greco have been included in the Industrial Products segment since the effective date of the acquisition.

Throughout this discussion, we refer to costs incurred related to "restructuring and realignment." These costs represent both restructuring and non-restructuring charges incurred as a result of manufacturing footprint optimization activities, including those activities described in Note 1.

Net Revenues

(amounts in thousands)	Three Months Ended June 30, 2017	2016
Revenues, net	$ 98,027	$ 84,107

Net revenues for the three months ended June 30, 2017 increased $13.9 million, or 16.6%, as compared with the three months ended June 30, 2016. The increase was primarily attributable to increases in HVAC ($4.7 million), mining ($1.6 million), plumbing ($1.5 million) and energy ($1.1 million) markets, as well as acquisition-related revenues of ($4.7 million).

Gross Profit and Gross Profit Margin

(amounts in thousands except for percentages)	Three Months Ended June 30, 2017	2016
Gross profit	$ 42,369	$ 38,203
Gross profit margin	43.2%	45.4%

Gross profit for the three months ended June 30, 2017 increased $4.2 million, or 10.9%, as compared with the three months ended June 30, 2016. Gross profit margin for the three months ended June 30, 2017 of 43.2% decreased as compared with a gross profit margin of 45.4% for the three months ended June 30, 2016. The increase in gross profit included acquisition related gross profit of $2.0 million. Additional increases due to increased sales were partially offset by a negative mix on products sold and restructuring and realignment costs. Gross profit margin was negatively impacted by restructuring and realignment costs associated with the Company's manufacturing footprint rationalization.

Operating Expenses

(amounts in thousands except for percentages)	Three Months Ended June 30, 2017	2016
Operating expenses	$ 28,106	$ 30,793
Operating expenses as a % of sales	28.7%	36.6%

Operating expenses for the three months ended June 30, 2017 decreased $2.7 million, or 8.7%, as compared with the three months ended June 30, 2016. The decrease was attributable to CFO transition and other severance costs ($3.3 million) and impairment due to consolidation of facilities ($1.1 million) that occurred in the prior year period that did not recur, offset by increases due to acquisitions ($0.9 million) and increases in the normal course of business due to increased sales.

Operating Income

(amounts in thousands except for percentages)	Three Months Ended June 30, 2017	2016
Operating income	$ 14,263	$ 7,410
Operating margin	14.6%	8.8%

Operating income for the three months ended June 30, 2017 increased $6.9 million, or 92.5%, as compared with the three months ended June 30, 2016. The increase was a result of the $4.2 million increase in gross profit and the $2.7 million decrease in operating expenses, as discussed above.

Other income and expense

Net interest expense of $0.6 million for the three month period ended June 30, 2017 was comparable to the three month period ended June 30, 2016.

Other income (expense), net decreased by $0.8 million to expense of $0.3 million for the three months ended June 30, 2017 as compared with the three months ended June 30, 2016. The decrease was due primarily to an increase in losses arising from transactions in currencies other than our sites' functional currencies.

Provision for Income Taxes and Effective Tax Rate

The provision for income taxes for the three months ended June 30, 2017 was $4.8 million representing an effective tax rate of 36.1%, as compared with the provision of $3.1 million, representing an effective tax rate of 43.1%, for the three months ended June 30, 2016. The variance from the U.S. federal statutory rate for the three months ended June 30, 2017, was primarily attributable to domestic operations in states with higher statutory rates, offset by foreign operations activity in countries with lower statutory rates. The provision for income taxes for the three months ended June 30, 2016 was impacted by $0.6 million relating to reserves for uncertain tax positions and the effect of changes in tax rates, which increased our anticipated effective rate by 8.5% for the three months ended June 30, 2016.

Business Segments

We conduct our operations through three business segments based on type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. The key operating results for our three business segments are discussed below.

Industrial Products Segment Results

Industrial Products includes specialty mechanical products, fire and smoke protection products, architecturally-specified building products and storage, filtration and application equipment for use with our specialty chemicals and other products for general industrial application.

	Three Months Ended June 30,	
	2017	2016
	(in thousands, except percentages)	
Revenues, net	$ 53,261	$ 43,475
Operating income	13,633	10,607
Operating margin	25.6%	24.4%

Net revenues for the three months ended June 30, 2017 increased $9.8 million, or 22.5%, as compared with the three months ended June 30, 2016. The increase was primarily attributable to increased sales volumes resulting from HVAC ($4.1 million) and plumbing ($1.5 million) markets, as well as acquisition related net revenue of $4.7 million.

Operating income for the three months ended June 30, 2017 increased $3.0 million, or 28.5%, as compared with the three months ended June 30, 2016. The increase was primarily attributable to the impact of increased organic net revenues, as well as acquisition related operating income of $1.1 million, partially offset by lower margin product mix within architecturally-specified products.

Coatings, Sealants and Adhesives Segment Results

Coatings, Sealants and Adhesives is comprised of coatings and penetrants, pipe thread sealants, fire stopping sealants and caulks and adhesives/solvent cements.

	Three Months Ended June 30,	
	2017	2016
	(in thousands except percentages)	
Revenues, net	$ 23,382	$ 23,424
Operating income	990	1,649
Operating margin	4.2%	7.0%

Net revenues for the three months ended June 30, 2017 were relatively flat as compared with the three months ended June 30, 2016.

Operating income for the three months ended June 30, 2017 decreased $0.7 million, or 39.9%, as compared with the three months ended June 30, 2016. The decrease was attributable to manufacturing inefficiencies due to the restructuring and realignment process.

Specialty Chemicals Segment Results

Specialty Chemicals includes lubricants and greases, drilling compounds, anti-seize compounds, chemical formulations and degreasers and cleaners.

	Three Months Ended June 30,	
	2017	2016
	(in thousands, except percentages)	
Revenues, net	$ 21,382	$ 17,187
Operating income	1,911	1,121
Operating margin	8.9%	6.5%

Net revenues for the three months ended June 30, 2017 increased $4.2 million, or 24.0%, as compared with the three months ended June 30, 2016. The increase was primarily attributable to energy ($2.2 million), mining ($0.9 million) and HVAC ($0.6 million).

Operating income for the three months ended June 30, 2017 increased $0.8 million or 70.5% as compared with the three months ended June 30, 2016. The increase was due to the increase in net revenue, as well as impairment costs related to the consolidation of our facilities in Canada ($0.6 million) that did not recur, partially offset by manufacturing inefficiencies associated with our manufacturing footprint rationalization.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Net cash provided by operating activities	$ 10,449	$ 3,851
Net cash used in investing activities	(2,349)	(2,559)
Net cash used in financing activities	(6,025)	(5,696)

Existing cash, cash generated by operations and borrowings available under our Revolving Credit Facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance (including cash and equivalents and bank time deposits) at June 30, 2017 was $27.8 million, as compared with $24.9 million at March 31, 2017.

For the three months ended June 30, 2017, our cash provided by operating activities was $10.4 million, as compared with $3.9 million for three months ended June 30, 2016. Cash flows from working capital decreased for the three months ended June 30, 2017, due to higher accounts receivable ($7.3 million), offset by higher accounts payable and other current liabilities ($4.7 million). Cash flows from working capital decreased for the three months ended June 30, 2016, due primarily to higher accounts receivable ($6.0 million) and lower accounts payable and other current liabilities ($2.5 million).

Cash flows used in investing activities during the three months ended June 30, 2017 were $2.3 million as compared with $2.6 million for the three months ended June 30, 2016. Capital expenditures during the three months ended June 30, 2017 were $2.3 million, a decrease of $0.5 million as compared with the three months ended June 30, 2016. Our capital expenditures are focused on continuous improvement, automation and consolidation of manufacturing facilities.

Cash flows used in financing activities during the three months ended June 30, 2017 were $6.0 million as compared with $5.7 million for the three months ended June 30, 2016. Cash outflows during both the three months ended June 30, 2017 and 2016 resulted primarily from repayments on our Revolving Credit Facility (as discussed in Note 7 to our condensed consolidated financial statements included in this Quarterly Report).

We believe that available cash and cash equivalents, cash flows generated through operations and cash available under our Revolving Credit Facility will be sufficient to meet our liquidity needs, including capital expenditures, for at least the next 12 months.

Acquisitions and Dispositions

We regularly evaluate acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition, including our ability to raise capital, is a critical consideration in any such evaluation. Note 2 to our condensed consolidated financial statements included in this Quarterly Report contains a discussion of certain of our recent acquisitions.

Financing

Credit Facilities

See Note 7 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our indebtedness. We were in compliance with all covenants as of June 30, 2017.

We have entered into interest rate swap agreements to hedge our exposure to variable interest payments related to our indebtedness. These agreements are more fully described in Note 8 to our condensed consolidated financial statements included in this Quarterly Report, and in “Item 3. Quantitative and Qualitative Disclosures about Market Risk” below.

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a material adverse effect on our financial condition or results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management’s discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report. No significant changes to these policies, as described in our Annual Report, have occurred in the three months ended June 30, 2017.

The process of preparing condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our condensed consolidated financial statements provide a meaningful and fair perspective of our consolidated financial condition and results of operations. This is not to suggest that other general risk factors, such as changes in worldwide demand, changes in material costs, performance of acquired businesses and others, could not adversely impact our consolidated financial condition, results of operations and cash flows in future periods. See “Cautionary Note Regarding Forward-Looking Statements” below.

ACCOUNTING DEVELOPMENTS

We have presented the information about pronouncements not yet implemented in Note 1 to our condensed consolidated financial statements included in this Quarterly Report.

Cautionary Note Regarding Forward-Looking Statements

Certain statements appearing in this Quarterly Report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include expected restructuring charges and the results of the restructuring, financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “expects,” “plans,” “anticipates,” “estimates,” “believes,” “potential,” “projects,” “forecasts,” “intends,” or the negative thereof or other comparable terminology. Forward-looking statements may include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

- our business strategy;
- future levels of revenues, operating margins, income from operations, net income or earnings per share;
- anticipated levels of demand for our products and services;
- future levels of research and development, capital, environmental or maintenance expenditures;
- our beliefs regarding the timing and effects on our business of health and safety, tax, environmental or other legislation, rules and regulations;

- the success or timing of completion of ongoing or anticipated capital, restructuring or maintenance projects;
- expectations regarding the acquisition or divestiture of assets and businesses;
- our ability to obtain appropriate insurance and indemnities;
- the potential effects of judicial or other proceedings, including tax audits, on our business, financial condition, results of operations and cash flows;
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation; and
- the effective date and expected impact of accounting pronouncements.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements for a number of important factors, including those listed under “Risk Factors” in our Annual Report and in this Quarterly Report. You should not put undue reliance on any forwarding-looking statements in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in interest rates and foreign currency exchange rates, which may adversely affect our consolidated financial position and results of operations. We seek to minimize these risks through regular operating and financing activities, and when deemed appropriate, through the use of interest rate swaps. It is our policy to enter into interest rate swaps only to the extent considered necessary to meet our risk management objectives. We do not purchase, hold or sell derivative financial instruments for trading or speculative purposes.

Variable Rate Indebtedness

We are subject to interest rate risk on our variable rate indebtedness. Fluctuations in interest rates have a direct effect on interest expense associated with our outstanding indebtedness. As of June 30, 2017, we had outstanding variable rate indebtedness of $25.0 million, after consideration of interest rate swaps. We manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements. At June 30, 2017, we had interest rate swap agreements that covered $42.2 million of the $67.2 million of our total outstanding indebtedness. At June 30, 2017 the unhedged variable rate indebtedness of $25.0 million had a weighted average interest rate of 2.48%. Each quarter point change in interest rates would result in a negligible change in our interest expense on an annual basis.

We may also be exposed to credit risk in derivative contracts we may use. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative contract is negative, we will owe the counterparty and, therefore, do not have credit risk. We have sought to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Foreign Currency Exchange Rate Risk

We conduct a small portion of our operations outside of the U.S. in currencies other than the U.S. dollar. Our non-U.S. operations are conducted primarily in their local currencies, which are also their functional currencies, and include the British pound, Canadian dollar and Australian dollar. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions denominated in a currency other than a non-U.S. operation’s functional currency. We realized a net gain (loss) associated with foreign currency translation of $1.7 million and $(1.3) million for the three months ended June 30, 2017 and 2016, respectively, which are included in accumulated other comprehensive income (loss). We recognized foreign currency transaction net (losses) gains of $(0.3) million and $0.2 million for the three months ended June 30, 2017 and 2016, respectively, which are included in other income (expense), net on our condensed consolidated statements of income.

Based on a sensitivity analysis at June 30, 2017, a 10% change in the foreign currency exchange rates for the three months ended June 30, 2017 would have impacted our net earnings by a negligible amount. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer, and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act") as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer, and Executive Vice President and Chief Financial Officer, have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The disclosure contained in Note 13 to our condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report is incorporated by reference into this "Item 1. Legal Proceedings." In addition to the foregoing, we and our subsidiaries are named defendants in a number of lawsuits, including product liability claims that are insured, subject to applicable deductibles, certain other ordinary routine lawsuits incidental to our business, and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect the amount of any liability that could arise with respect to these matters, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our Annual Report , which contain descriptions of significant factors that may cause the actual results of operations in future periods to differ materially from those currently expected or desired.

There have been no material changes in the risk factors discussed in our Annual Report and subsequent SEC filings. The risks described in this Quarterly Report, our Annual Report and in our other SEC filings or press releases from time to time are not the only risks we face. Additional risks and uncertainties are currently deemed immaterial based on management's assessment of currently available information, which remains subject to change; however, new risks that are currently unknown to us may arise in the future that materially adversely affect our business, financial condition, results of operations or cash flows.

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

Note 10 to our condensed consolidated financial statements included in this Quarterly Report includes a discussion of our share repurchase program. Through June 30, 2017, no shares have been repurchased under this program.

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (a)
					(in millions)
April 1 - 30	—		$ —	—	$ 35.0
May 1-31	—		—	—	35.0
June 1-30	274	(b)	$ 36.70	—	35.0
Total	274			—	

(a) On November 11, 2016, we announced that our Board of Directors authorized us to repurchase shares of our common stock up to an aggregate market value of $35.0 million during a two-year period. The program may be limited or terminated at any time.

(b) Represents shares tendered by employees to satisfy minimum tax withholding amounts for restricted share vesting.

Item 6. Exhibits.

A list of exhibits filed or furnished as part of this Quarterly Report on Form 10-Q is set forth on the Exhibits Index immediately following the signature page of this report and is incorporated herein by reference.

SIGNATURES

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

CSW INDUSTRIALS, INC.

Date: August 9, 2017

/s/ Joseph B. Armes

Joseph B. Armes
Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2017

/s/ Greggory W. Branning

Greggory W. Branning
Chief Financial Officer
(Principal Financial Officer)

Exhibits Index

Exhibit No.	Description
31.1+	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EX-101+	INSTANCE DOCUMENT
EX-101+	SCHEMA DOCUMENT
EX-101+	CALCULATION LINKBASE DOCUMENT
EX-101+	LABELS LINKBASE DOCUMENT
EX-101+	PRESENTATION LINKBASE DOCUMENT
EX-101+	DEFINITION LINKBASE DOCUMENT

+ Filed herewith
++ Furnished herewith
* Management contracts and compensatory plans required to be filed as exhibits to this Quarterly Report on Form 10-Q.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph B. Armes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 of CSW Industrials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Joseph B. Armes

Joseph B. Armes
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Greggory W. Branning, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 of CSW Industrials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Greggory W. Branning

Greggory W. Branning
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph B. Armes, Chief Executive Officer of CSW Industrials, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: August 9, 2017

/s/ Joseph B. Armes

Joseph B. Armes
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Greggory W. Branning, Chief Financial Officer of CSW Industrials, Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: August 9, 2017

/s/ Greggory W. Branning

Greggory W. Branning
Chief Financial Officer
(Principal Financial Officer)