

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2020**

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**

(State or other jurisdiction of incorporation or organization)

**47-2266942**

(I.R.S. Employer Identification No.)

**5420 Lyndon B. Johnson Freeway, Suite 500, Dallas, Texas**

(Address of principal executive offices)

**75240**

(Zip Code)

**(214) 884-3777**

Registrant's telephone number, including area code

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

Title of each class	Trading symbol (s)	Name of each exchange on which registered
<b>Common Stock, par value \$0.01 per share</b>	<b>CSWI</b>	<b>Nasdaq Stock Market LLC</b>

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 "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2020, there were 14,803,929 shares of the issuer's common stock outstanding.

CSW INDUSTRIALS, INC.  
FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Amounts in thousands, except per share amounts)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Revenues, net	\$ 104,940	\$ 101,324	\$ 195,904	\$ 203,657
Cost of revenues	(56,204)	(53,920)	(104,416)	(109,018)
Gross profit	48,736	47,404	91,488	94,639
Selling, general and administrative expenses	(26,556)	(27,282)	(53,056)	(54,195)
Operating income	22,180	20,122	38,432	40,444
Interest expense, net	(284)	(299)	(602)	(800)
Other expense, net	(360)	(7,367)	(667)	(7,454)
Income before income taxes	21,536	12,456	37,163	32,190
Provision for income taxes	(5,182)	(3,638)	(8,851)	(8,027)
Income from continuing operations	16,354	8,818	28,312	24,163
Loss from discontinued operations, net of tax	—	(35)	—	(174)
Net income	\$ 16,354	\$ 8,783	\$ 28,312	\$ 23,989
Basic earnings (loss) per common share:				
Continuing operations	\$ 1.11	\$ 0.59	\$ 1.92	\$ 1.61
Discontinued operations	—	(0.01)	—	(0.01)
Net income	\$ 1.11	\$ 0.58	\$ 1.92	\$ 1.60
Diluted earnings (loss) per common share:				
Continuing operations	\$ 1.10	\$ 0.58	\$ 1.91	\$ 1.59
Discontinued operations	—	—	—	(0.01)
Net income	\$ 1.10	\$ 0.58	\$ 1.91	\$ 1.58

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(Amounts in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 16,354	\$ 8,783	\$ 28,312	\$ 23,989
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,052	(669)	2,390	(411)
Cash flow hedging activity, net of taxes of \$(16), \$58, \$(1) and \$137 respectively	60	(217)	5	(514)
Pension and other postretirement effects, net of taxes of \$(1), \$(673), \$0 and \$(673), respectively	4	2,534	—	2,530
Other comprehensive income	1,116	1,648	2,395	1,605
Comprehensive income	\$ 17,470	\$ 10,431	\$ 30,707	\$ 25,594

See accompanying notes to condensed consolidated financial statements.

**CSW INDUSTRIALS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Amounts in thousands, except per share amounts)

	<b>September 30, 2020</b>	<b>March 31, 2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,299	\$ 18,338
Accounts receivable, net of allowance for expected credit losses of \$576 and \$1,170, respectively	70,092	74,880
Inventories, net	52,090	53,753
Prepaid expenses and other current assets	5,377	3,074
<b>Total current assets</b>	<b>174,858</b>	<b>150,045</b>
Property, plant and equipment, net of accumulated depreciation of \$75,235 and \$71,355, respectively	57,734	57,178
Goodwill	92,419	91,686
Intangible assets, net	43,368	46,185
Other assets	23,288	24,151
<b>Total assets</b>	<b>\$ 391,667</b>	<b>\$ 369,245</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,736	\$ 21,978
Accrued and other current liabilities	36,113	36,607
Current portion of long-term debt	561	561
<b>Total current liabilities</b>	<b>57,410</b>	<b>59,146</b>
Long-term debt	10,056	10,337
Retirement benefits payable	1,853	1,879
Other long-term liabilities	20,307	21,142
<b>Total liabilities</b>	<b>89,626</b>	<b>92,504</b>
Equity:		
Common shares, \$0.01 par value	160	159
Shares authorized – 50,000		
Shares issued – 16,115 and 16,055, respectively		
Preferred shares, \$0.01 par value	—	—
Shares authorized (10,000) and issued (0)		
Additional paid-in capital	50,936	48,327
Treasury shares, at cost (1,346 and 1,311 shares, respectively)	(79,401)	(75,377)
Retained earnings	339,397	315,078
Accumulated other comprehensive loss	(9,051)	(11,446)
<b>Total equity</b>	<b>302,041</b>	<b>276,741</b>
<b>Total liabilities and equity</b>	<b>\$ 391,667</b>	<b>\$ 369,245</b>

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
(Unaudited)

(Amounts in thousands)	Common Stock	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
<b>Balance at March 31, 2020</b>	\$ 159	\$ (75,377)	\$ 48,327	\$ 315,078	\$ (11,446)	\$ 276,741
Share-based compensation	—	—	1,328	—	—	1,328
Stock activity under stock plans	1	(1,670)	(1)	—	—	(1,670)
Repurchase of common shares	—	(7,291)	—	—	—	(7,291)
Reissuance of treasury shares	—	3,131	516	—	—	3,647
Net income	—	—	—	11,960	—	11,960
Dividends	—	—	12	(1,996)	—	(1,984)
Other comprehensive income, net of tax	—	—	—	—	1,279	1,279
<b>Balance at June 30, 2020</b>	\$ 160	\$ (81,207)	\$ 50,182	\$ 325,042	\$ (10,167)	\$ 284,010
Share-based compensation	—	—	1,222	—	—	1,222
Stock activity under stock plans	—	(6)	—	—	—	(6)
Reissuance of treasury shares	—	1,812	(479)	—	—	1,333
Net income	—	—	—	16,354	—	16,354
Dividends	—	—	11	(1,999)	—	(1,988)
Other comprehensive income, net of tax	—	—	—	—	1,116	1,116
<b>Balance at September 30, 2020</b>	\$ 160	\$ (79,401)	\$ 50,936	\$ 339,397	\$ (9,051)	\$ 302,041

(Amounts in thousands)	Common Stock	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
<b>Balance at March 31, 2019</b>	\$ 158	\$ (49,964)	\$ 46,633	\$ 277,588	\$ (10,729)	\$ 263,686
Share-based compensation	—	—	1,213	—	—	1,213
Stock activity under stock plans	1	(793)	—	—	—	(792)
Adoption of ASC 842 Leases	—	—	—	(400)	—	(400)
Net income	—	—	—	15,204	—	15,204
Dividends	—	—	—	(2,041)	—	(2,041)
Other comprehensive loss, net of tax	—	—	—	—	(43)	(43)
<b>Balance at June 30, 2019</b>	\$ 159	\$ (50,757)	\$ 47,846	\$ 290,351	\$ (10,772)	\$ 276,827
Share-based compensation	—	—	1,196	—	—	1,196
Net income	—	—	—	8,783	—	8,783
Dividends	—	—	25	(2,040)	—	(2,015)
Other comprehensive income, net of tax	—	—	—	—	1,648	1,648
<b>Balance at September 30, 2019</b>	\$ 159	\$ (50,757)	\$ 49,067	\$ 297,094	\$ (9,124)	\$ 286,439

See accompanying notes to condensed consolidated financial statements.

CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Amounts in thousands)	Six Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 28,312	\$ 23,989
Less: Loss from discontinued operations	—	(174)
Income from continuing operations	28,312	24,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,776	4,162
Amortization of intangible and other assets	3,454	3,503
Provision for inventory reserves	953	229
Provision for doubtful accounts	274	547
Share-based and other executive compensation	2,550	2,434
Net gain on disposals of property, plant and equipment	(13)	(744)
Pension plan curtailment benefit	—	6,559
Net pension benefit	81	(198)
Net deferred taxes	111	(875)
Changes in operating assets and liabilities:		
Accounts receivable	5,028	(1,101)
Inventories	880	(899)
Prepaid expenses and other current assets	(2,380)	3,021
Other assets	(165)	20
Accounts payable and other current liabilities	1,989	(3,110)
Retirement benefits payable and other liabilities	(67)	(215)
Net cash provided by operating activities, continuing operations	44,783	37,496
Net cash used in operating activities, discontinued operations	—	(389)
Net cash provided by operating activities	44,783	37,107
Cash flows from investing activities:		
Capital expenditures	(4,357)	(4,571)
Proceeds from sale of assets	6	1,089
Cash paid for acquisitions	—	(11,837)
Net cash used in investing activities, continuing operations	(4,351)	(15,319)
Net cash provided by investing activities, discontinued operations	—	—
Net cash used in investing activities	(4,351)	(15,319)
Cash flows from financing activities:		
Borrowings on line of credit	10,000	7,500
Repayments of line of credit and term loan	(10,281)	(27,781)
Purchase of treasury shares	(9,352)	(793)
Proceeds from stock option activity	1,331	—
Dividends	(3,972)	(4,081)
Net cash used in financing activities	(12,274)	(25,155)
Effect of exchange rate changes on cash and equivalents	803	393
Net change in cash and cash equivalents	28,961	(2,974)
Cash and cash equivalents, beginning of period	18,338	26,651
Cash and cash equivalents, end of period	\$ 47,299	\$ 23,677

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," "we," "our" or "us") is a diversified industrial growth company with well-established, scalable platforms and domain expertise across two business segments: Industrial Products and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing and life safety solutions to our customers. Our products include mechanical products for heating, ventilation, air conditioning and refrigeration ("HVAC/R"), building products and high-performance specialty lubricants and sealants. Drawing on our innovative and proven technologies, we seek to deliver solutions primarily to our professional end-use customers that place a premium on superior performance and reliability. Our diverse product portfolio includes more than 100 highly respected industrial brands including No. 5<sup>®</sup>, KOPR-KOTE<sup>®</sup>, Kats Coatings<sup>®</sup>, Safe-T-Switch<sup>®</sup>, Air Sentry<sup>®</sup>, Deacon<sup>®</sup>, Leak Freeze<sup>®</sup> and Greco<sup>®</sup>.

Our products are well-known in the specific industries we serve and have a reputation for high quality and reliability. Markets that we serve include HVAC/R, architecturally-specified building products, plumbing, energy, rail, mining and general industrial markets.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") a pandemic. COVID-19 continues to spread throughout the world and has led certain countries or jurisdictions within them to restrict travel, social gatherings and certain types of business activity deemed to be "non-essential," which has created a recessionary environment in the U.S. and around the globe and has led to a decline in demand in some end markets, including several that we serve. Also, in March 2020, as a result of the weakened demand for crude oil resulting from the COVID-19 pandemic, and magnified by political tensions between several large crude oil-producing countries, there was a substantial decline in crude oil prices magnified by significant volatility that has continued to date. Both factors had a negative impact on our revenues in the three and six months ended September 30, 2020, as compared with the same periods in fiscal 2020, and are expected to negatively impact our results in the balance of fiscal year 2021.

We expect our results of operations and financial condition to continue to be adversely impacted as compared with the prior year through the duration of the pandemic due to its effects on the economy and demand for our products and services. However, we cannot reasonably estimate the magnitude or length of the adverse impact due to continued uncertainty regarding (1) the duration and severity of the COVID-19 pandemic and (2) the extent of the potential short and long-term impact on our facilities and employees, customer demand and availability of materials through supply channels.

***Basis of Presentation***

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 ("Quarterly Report"), include 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 September 30, 2020, and the results of operations for the three and six month periods ended September 30, 2020 and 2019. 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, 2020 (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, with the exception of the expected credit loss accounting policy described below as a result of adopting the new expected credit loss standard.



*Current Expected Credit Losses ("CECL")* - We record an allowance for credit losses on trade receivables that, when deducted from the gross trade receivables balance, presents the net amount expected to be collected. We estimate the allowance based on an aging schedule and according to historical losses as determined from our billings and collections history. This may be adjusted after consideration of customer-specific factors such as financial difficulties, liquidity issues or insolvency, as well as both current and forecasted macroeconomic conditions as of the reporting date. We adjust the allowance and recognize credit losses in the income statement each period. Trade receivables are written off against the allowance in the period when the receivable is deemed to be uncollectible. Subsequent recoveries of amounts previously written off are reflected as a reduction to periodic credit losses in the income statement. Our allowance for expected credit losses for short-term receivables as of September 30, 2020 was \$0.6 million, compared to \$1.2 million as of March 31, 2020. The six months activity included \$0.3 million for current period adjustments.

## ***Accounting Developments***

### *Pronouncements Implemented*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." The ASU requires, among other things, the use of a new current expected credit loss model in order to determine an allowance for credit losses with respect to financial assets and instruments held. The CECL model requires that we estimate the lifetime of an expected credit loss for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. On April 1, 2020 we adopted the ASU on a prospective basis to determine our allowance for credit losses in accordance with the requirements of Topic 326, and we modified our accounting policy and processes to facilitate this approach. Our primary exposure to financial assets that are within the scope of CECL are trade receivables. Our adoption of ASU No. 2016-13 effective April 1, 2020 did not have a material impact on our condensed consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments of the ASU modify the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosure requirements for assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to the financial statements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 permitted for the new disclosures. The removed and modified disclosures were adopted on a retrospective basis and the new disclosures were adopted on a prospective basis. Our adoption of ASU No. 2018-13 effective April 1, 2020 did not impact our disclosures.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The ASU addresses how entities should account for costs associated with implementing a cloud computing arrangement that is considered a service contract. Per the amendments of the ASU, implementation costs incurred in a cloud computing arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain software for internal use as prescribed by guidance in ASC 350-40. The ASU requires that implementation costs incurred in a cloud computing arrangement be capitalized rather than expensed. Further, the ASU specifies the method for the amortization of costs incurred during implementation, and the manner in which the unamortized portion of these capitalized implementation costs should be evaluated for impairment. The ASU also provides guidance on how to present such implementation costs in the financial statements and also creates additional disclosure requirements. The amendments are effective for fiscal years beginning after December 15, 2019. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Our adoption of ASU No. 2018-15 effective April 1, 2020 did not have an impact on our condensed consolidated financial condition and results of operations.

### *Pronouncements not yet implemented*

In August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. The amendments are effective for fiscal years ending after December 15, 2020 and the amendments should be applied retrospectively to all periods presented. We

are currently evaluating the impact of ASU No. 2018-14 and we anticipate that our adoption of this ASU will not have a material impact on our disclosures due to the termination of our U.S. pension plan in the prior year.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes: Simplifying the Accounting for Income Taxes." The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions and adding some requirements regarding franchise (or similar) tax, step-ups in a business combination, treatment of entities not subject to tax and when to apply enacted changes in tax laws. This ASU is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments should be applied on a prospective basis. Early adoption is permitted. Our initial assessment of this ASU indicates it will not have a material impact on our consolidated financial condition and results of operations, but our assessment has not been completed.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This update provides optional guidance for a limited period of time to ease potential accounting impacts associated with transitioning away from reference rates that are expected to be discontinued, such as interbank offered rates and LIBOR. This ASU includes practical expedients for contract modifications due to reference rate reform. Generally, contract modifications related to reference rate reform may be considered an event that does not require remeasurement or reassessment of a previous accounting determination at the modification date. This ASU is effective immediately; however, it is only available through December 31, 2022. We are currently evaluating the potential impact of this ASU on our consolidated financial position and results of operations.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security ("CARES") Act, which, along with earlier issued Internal Revenue Service ("IRS") guidance, contains numerous provisions that may benefit us, including the deferral of certain taxes. The relevant tax implication impacting us is the correction of a technical issue introduced in the Tax Cuts and Jobs Act to provide for fifteen-year useful life and allow bonus depreciation for qualified improvement property. These changes were included in the fixed asset calculations for the tax year ending March 31, 2020, and we amended the tax return for the year ending March 31, 2019 to include this effect. We continue to assess the effect of the CARES Act and ongoing government guidance related to COVID-19 as it is issued.

## 2. ACQUISITIONS

### *Petersen Metals*

On April 2, 2019, we acquired the assets of Petersen Metals, Inc. ("Petersen"), based near Tampa, Florida, for \$11.8 million, of which \$11.5 million was paid at closing and funded through our revolving credit facility, and the remaining \$0.3 million represented a working capital adjustment paid in July 2019. Petersen is a leading designer, manufacturer and installer of architecturally-specified, engineered metal products and railings, including aluminum and stainless steel railings products for interior and exterior applications. The excess of the purchase price over the fair value of the identifiable assets acquired was \$6.1 million allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from enabling geographic, end market and product diversification and expansion as Petersen is a strategic complement to our existing line of architecturally-specified building products. The allocation of the fair value of the net assets acquired included customer lists of \$3.2 million and backlog of \$0.4 million, as well as accounts receivable, inventory and equipment of \$2.2 million, \$0.8 million and \$0.7 million, respectively, net of current liabilities of \$1.5 million. Customer lists are being amortized over 15 years, backlog is amortized over 1.5 years and goodwill is not being amortized. Petersen activity has been included in our Industrial Products segment since the acquisition date. No pro forma information has been provided due to immateriality.

### 3. DISCONTINUED OPERATIONS

During the quarter ended December 31, 2017, we commenced a sale process to divest our Coatings business to allow us to focus resources on our core growth platforms. Our Coatings business manufactured specialized industrial coating products including urethanes, epoxies, acrylics and alkyds. As of December 31, 2017, the Coatings business met the held-for-sale criteria under ASC 360, "Property, Plant and Equipment," and accordingly, we classified and accounted for the assets and liabilities of the Coatings business as held-for-sale in the accompanying condensed consolidated balance sheets, and as discontinued operations, net of tax, in the accompanying condensed consolidated statements of income and cash flows. We completed an initial assessment of the assets and liabilities of the Coatings business and recorded a \$46.0 million impairment based on our best estimates as of the date of issuance of financial results for the quarter ended December 31, 2017. No adjustments to previously recorded estimates have been made.

On July 31, 2018, we consummated a sale of assets related to our Coatings business to an unrelated third party, the terms of which were not disclosed due to immateriality. During the three months ended September 30, 2018, we received an aggregate of \$6.9 million for the sale of assets related to our Coatings business in multiple transactions. This resulted in gains on disposal of \$6.9 million due to write-downs of long-lived assets in prior periods.

On March 17, 2020, we completed the sale of the last remaining real property owned by the Coatings business to an unrelated third party, the terms of which were not disclosed due to immateriality. The sale resulted in proceeds and a gain on disposal of \$1.5 million due to write-downs of long-lived assets in prior periods. The last remaining asset of the Coatings business is a long-term lease that expires in March 2027. We were unable to terminate the lease, but we have sub-let the property for the remainder of the lease term. As such, this lease was moved back into continuing operations, effective March 31, 2020, and the related right-of-use ("ROU") assets and lease liabilities were reported as continuing operations as of March 31, 2020.

Summarized selected financial information for the Coatings business for the three and six months ended September 30, 2020 and 2019 is presented in the following table (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Revenues, net	\$ —	\$ —	\$ —	\$ —
Loss from discontinued operations before income taxes	—	(69)	—	(224)
Income tax benefit	—	34	—	50
Loss from discontinued operations, net	\$ —	\$ (35)	\$ —	\$ (174)

### 4. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2020	March 31, 2020
Raw materials and supplies	\$ 21,401	\$ 20,935
Work in process	6,723	6,076
Finished goods	31,692	33,771
Total inventories	59,816	60,782
Less: LIFO reserve	(4,816)	(4,816)
Less: Obsolescence reserve	(2,910)	(2,213)
Inventories, net	\$ 52,090	\$ 53,753

## 5. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill as of September 30, 2020 and March 31, 2020 were as follows (in thousands):

	Industrial Products	Specialty Chemicals	Total
Balance at March 31, 2020	\$ 60,123	\$ 31,563	\$ 91,686
Currency translation	733	—	733
Balance at September 30, 2020	<u>\$ 60,856</u>	<u>\$ 31,563</u>	<u>\$ 92,419</u>

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

	Wtd Avg Life (Years)	September 30, 2020		March 31, 2020	
		Ending Gross Amount	Accumulated Amortization	Ending Gross Amount	Accumulated Amortization
Finite-lived intangible assets:					
Patents	11	\$ 9,636	\$ (7,329)	\$ 9,635	\$ (6,935)
Customer lists and amortized trademarks	12	63,459	(35,661)	62,806	(33,098)
Non-compete agreements	5	1,689	(1,770)	1,653	(1,494)
Other	8	5,248	(2,962)	5,219	(2,628)
		<u>\$ 80,032</u>	<u>\$ (47,722)</u>	<u>\$ 79,313</u>	<u>\$ (44,155)</u>
Trade names and trademarks not being amortized:		<u>\$ 11,058</u>	<u>\$ —</u>	<u>\$ 11,027</u>	<u>\$ —</u>

Amortization expenses for the three and six months ended September 30, 2020 were \$1.7 million and \$3.3 million, respectively. Amortization expenses for the three and six months ended September 30, 2019 were \$1.7 million and \$3.4 million, respectively. The following table shows the estimated future amortization for intangible assets, as of September 30, 2020, for the remainder of the current fiscal year and the next four fiscal years ending March 31 (in thousands):

2021	\$ 3,152
2022	5,525
2023	4,585
2024	3,831
2025	3,108

## 6. SHARE-BASED COMPENSATION

Refer to Note 6 to our consolidated financial statements included in our Annual Report for a description of the 2015 Equity and Incentive Compensation Plan (the "2015 Plan"). As of September 30, 2020, 714,586 shares were available for issuance under the 2015 Plan.

We recorded share-based compensation expense as follows for the three and six months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Share-based compensation expense	\$ 1,222	\$ 1,196	\$ 2,550	\$ 2,409
Related income tax benefit	(293)	(287)	(612)	(578)
Net share-based compensation expense	<u>\$ 929</u>	<u>\$ 909</u>	<u>\$ 1,938</u>	<u>\$ 1,831</u>

Stock option activity was as follows:

	<b>Six Months Ended September 30, 2020</b>			
	Number of Shares	Weighted Average Price	Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at April 1, 2020	115,858	\$ 25.30		
Exercised	(52,445)	25.40		
Outstanding at September 30, 2020	<u>63,413</u>	<u>25.23</u>	3.9	\$ 3.3
Exercisable at September 30, 2020	<u>63,413</u>	<u>\$ 25.23</u>	3.9	\$ 3.3

All compensation costs related to stock options were recognized prior to April 1, 2019. No options were granted or vested during the three and six months ended September 30, 2020 and 2019.

Restricted share activity was as follows:

	<b>Six Months Ended September 30, 2020</b>	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at April 1, 2020:	202,466	\$ 60.78
Granted	67,785	73.37
Vested	(71,195)	49.80
Canceled	(11,825)	68.95
Outstanding at September 30, 2020	<u>187,231</u>	<u>\$ 64.78</u>

During the restriction period, the holders of restricted shares are entitled to vote and receive dividends. Unvested restricted shares outstanding as of September 30, 2020 and March 31, 2020 included 89,199 and 93,249 shares (at target), respectively, with performance-based vesting provisions, and vesting ranges from 0%-200% based on pre-defined performance targets with market conditions. Performance-based awards accrue dividend equivalents, which are settled upon (and to the extent of) vesting of the underlying award, but do not have the right to vote until vested. Performance-based awards are earned upon the achievement of objective performance targets and are payable in common shares. Compensation expense is calculated based on the fair market value as determined by a Monte Carlo simulation and is recognized over a 36-month cliff vesting period. No awards with performance-based vesting provisions were granted during the three months ended September 30, 2020 and 2019. We granted 26,966 and 31,594 awards with performance-based vesting provisions during the six months ended September 30, 2020 and 2019, respectively, with a vesting range of 0%-200%.

At September 30, 2020, we had unrecognized compensation cost related to unvested restricted shares of \$6.3 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 1.9 years. The total fair value of restricted shares granted during the three months ended September 30, 2020 and 2019 was zero and less than \$0.1 million, respectively. The total fair value of restricted shares granted during the six months ended September 30, 2020 and 2019 was \$2.5 million and \$2.6 million, respectively. The total fair value of restricted shares vested during the three months ended September 30, 2020 and 2019 was less than \$0.1 million and zero, respectively. The total fair value of restricted shares vested during the six months ended September 30, 2020 and 2019 was \$4.3 million and \$2.1 million, respectively.

## 7. LONG-TERM DEBT

Debt consists of the following (in thousands):

	<b>September 30, 2020</b>	<b>March 31, 2020</b>
Revolving Credit Facility, interest rate of 1.40% and 2.24%, respectively	\$ —	\$ —
Whitmore Term Loan, interest rate of 2.15% and 2.99%, respectively	10,617	10,898
Total debt	10,617	10,898
Less: Current portion	(561)	(561)
Long-term debt	<u>\$ 10,056</u>	<u>\$ 10,337</u>

### Revolving Credit Facility

As discussed in Note 8 to our consolidated financial statements included in our Annual Report, we have a five-year, \$250.0 million revolving credit facility agreement, with an additional \$50.0 million accordion feature, which matures on September 15, 2022 (the "Revolving Credit Facility"). Borrowings under this facility bear interest at a rate of prime plus 0.25% or London Interbank Offered Rate ("LIBOR") plus 1.25%, which may be adjusted based on our leverage ratio. We pay a commitment fee of 0.15% 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 the maturity date. The Revolving Credit Facility is secured by substantially all of our domestic assets. During the six months ended September 30, 2020, we borrowed \$10.0 million and repaid \$10.0 million under this facility. As of September 30, 2020 and March 31, 2020, we had no outstanding balance, which resulted in borrowing capacity of \$300.0 million, inclusive of the accordion feature. Covenant compliance is tested quarterly, and we were in compliance with all covenants as of September 30, 2020.

### Whitmore Term Loan

As of September 30, 2020, Whitmore Manufacturing (one of our wholly-owned operating subsidiaries) had a secured term loan ("Whitmore Term Loan") outstanding related to a warehouse and corporate office building and the remodel of an existing manufacturing and research and development facility. The Whitmore Term Loan was entered into in July 2014 and matures on July 31, 2029 and requires payments of \$140,000 each quarter. Borrowings under this term loan bear interest at a variable annual rate equal to one month LIBOR plus 2.0%. As of September 30, 2020 and March 31, 2020, Whitmore Manufacturing had \$10.6 million and \$10.9 million, respectively, in principal amount outstanding under the term loan. Interest payments under the Whitmore Term Loan are hedged under an interest rate swap agreement as described in Note 9.

## 8. LEASES

We have operating leases for manufacturing facilities, offices, warehouses, vehicles and certain equipment. Our leases have remaining lease terms of 1 year to 8.9 years, some of which include escalation clauses and/or options to extend or terminate the leases.

We do not currently have any financing lease arrangements.

(in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
<b>Components of Operating Lease Expenses</b>				
Operating lease expense (a)	\$ 846	\$ 889	\$ 1,691	\$ 1,793
Short-term lease expense	111	152	165	152
Total operating lease expense	<u>\$ 957</u>	<u>\$ 1,041</u>	<u>\$ 1,856</u>	<u>\$ 1,945</u>

(a) Included in cost of revenues and selling, general and administrative expense

(in thousands)	September 30, 2020	March 31, 2020
<b>Operating Lease Assets and Liabilities</b>		
ROU assets, net (b)	\$ 15,084	\$ 16,383
Short-term lease liabilities (c)	\$ 3,188	\$ 3,056
Long-term lease liabilities (c)	13,757	15,179
Total operating lease liabilities	<u>\$ 16,945</u>	<u>\$ 18,235</u>

(b) Included in other assets, net

(c) Included in accrued and other current liabilities and other long-term liabilities

(in thousands)	<b>Six Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Supplemental Cash Flow</b>		
Cash paid for amounts included in the measurement of operating lease liabilities (a)	\$ 1,885	\$ 1,736
ROU assets obtained in exchange for new operating lease obligations	128	643
(a) Included in our condensed consolidated statement of cash flows, operating activities in accounts payable and other current liabilities		

#### Other Information for Operating Leases

Weighted average remaining lease term (in years)	5.8	6.3
Weighted average discount rate (percent)	4.3 %	4.3 %

#### Maturities of operating lease liabilities were as follows (in thousands):

Year Ending March 31, 2021 (excluding the six months ended September 30, 2020)	\$ 1,916
2022	3,827
2023	3,121
2024	2,851
2025	2,548
Thereafter	4,963
<b>Total lease liabilities</b>	<b>19,226</b>
Less: Imputed interest	(2,281)
<b>Present value of lease liabilities</b>	<b>\$ 16,945</b>

## 9. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

We have an interest rate swap agreement to hedge exposure to floating interest rates on a certain portion of our debt. As of September 30, 2020 and March 31, 2020, we had \$10.7 million and \$10.9 million, respectively, of notional amount outstanding designated as an interest rate swap with third parties. The interest rate swap is highly effective. At September 30, 2020, the maximum remaining length of the interest rate swap contract was approximately 8.8 years. The fair value of the interest rate swap designated as a hedging instrument is summarized below (in thousands):

	<b>September 30, 2020</b>	<b>March 31, 2020</b>
Current derivative liabilities	\$ 288	\$ 271
Non-current derivative liabilities	1,466	1,492

The impact of changes in fair value of the interest rate swap is included in Note 12.

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

## 10. 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 and six months ended September 30, 2020 and 2019 (amounts in thousands, except per share data):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Income from continuing operations	\$ 16,354	\$ 8,818	\$ 28,312	\$ 24,163
Loss from discontinued operations	—	(35)	—	(174)
Net income	\$ 16,354	\$ 8,783	\$ 28,312	\$ 23,989
Weighted average shares:				
Common stock	14,651	14,874	14,627	14,875
Participating securities	96	115	100	115
Denominator for basic earnings per common share	14,747	14,989	14,727	14,990
Potentially dilutive securities	95	191	98	180
Denominator for diluted earnings per common share	14,842	15,180	14,825	15,170
Basic earnings (loss) per common share:				
Continuing operations	\$ 1.11	\$ 0.59	\$ 1.92	\$ 1.61
Discontinued operations	—	(0.01)	—	(0.01)
Net income	\$ 1.11	\$ 0.58	\$ 1.92	\$ 1.60
Diluted earnings (loss) per common share:				
Continuing operations	\$ 1.10	\$ 0.58	\$ 1.91	\$ 1.59
Discontinued operations	—	—	—	(0.01)
Net income	\$ 1.10	\$ 0.58	\$ 1.91	\$ 1.58

## 11. SHAREHOLDERS' EQUITY

### *Share Repurchase Program*

On November 7, 2018, we announced that our Board of Directors authorized a program to repurchase up to \$75.0 million of our common stock over a two-year period. These shares may be repurchased from time to time 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 our common stock and general market conditions. The program may be limited or terminated at any time at our discretion without notice. No shares were repurchased under the program during the three months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, a total of 740,137 shares had been repurchased for an aggregate amount of \$46.0 million.

### *Dividends*

In April 2019, we commenced a quarterly dividend program at a quarterly rate of \$0.135 per share. Total dividends of \$2.0 million and \$2.0 million were paid during the three months ended September 30, 2020 and 2019, respectively. Total dividends of \$4.0 million and \$4.1 million were paid during the six months ended September 30, 2020 and 2019, respectively.

On October 8, 2020, we announced a quarterly dividend of \$0.135 per share payable on November 13, 2020 to shareholders of record as of October 30, 2020. Any future dividends at the existing \$0.135 per share quarterly rate or otherwise will be reviewed individually and declared by our Board of Directors in its discretion.



## 12. FAIR VALUE MEASUREMENTS

The fair value of the interest rate swap contract (as discussed in Note 9) is determined using Level 2 inputs. The carrying value of our debt (discussed 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, accounts receivable, net, accounts payable) approximate their fair values at September 30, 2020 and March 31, 2020 due to their short-term nature.

## 13. RETIREMENT PLANS

Refer to Note 14 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 September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Service cost, benefits earned during the period	\$ 10	\$ 18	\$ 20	\$ 35
Interest cost on projected benefit obligation	36	523	71	1,046
Expected return on assets	(24)	(653)	(47)	(1,307)
Amortization of net actuarial loss	18	12	37	25
Pension plan termination	—	7,019	—	7,019
Net pension benefit	<u>\$ 40</u>	<u>\$ 6,919</u>	<u>\$ 81</u>	<u>\$ 6,818</u>

The components of net periodic cost for retirement and postretirement benefits, other than service costs, are included in other expense, net in our condensed consolidated statements of income.

During the six months ended September 30, 2019, we offered lump sum payments to eligible active and terminated vested participants in our qualified U.S. pension plan (the "Qualified Plan"), representing approximately 42% of our liability. Approximately 74% of those participants accepted the lump sum offer for an aggregate payment of \$17.0 million in August 2019. We entered into an annuity purchase contract for the remaining liability in September 2019, and terminated the Qualified Plan effective September 30, 2019. The termination required an additional contribution of \$0.5 million, which was paid in September 2019, and resulted in an overall termination charge of \$7.0 million (\$5.4 million, net of tax) recorded in other (expense) income, net, due primarily to the recognition of expenses that were previously included in accumulated other comprehensive loss and the recognition of additional costs associated with the annuity purchase contract. After the participant data for the annuity purchase contract was finalized in the fiscal fourth quarter ended March 31, 2020, the Qualified Plan had excess funds of \$0.5 million, which were distributed into the Defined Contribution Plan.

## 14. CONTINGENCIES

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. There are no matters pending that we currently believe have a reasonable possibility of having a material impact to our business, consolidated financial position, results of operations or cash flows.

## 15. INCOME TAXES

For the three months ended September 30, 2020, we earned \$21.5 million from continuing operations before taxes and provided for income taxes of \$5.2 million, resulting in an effective tax rate of 24.1%. For the six months ended September 30, 2020, we earned \$37.2 million from continuing operations before taxes and provided for income taxes of \$8.9 million, resulting in an effective tax rate of 23.8%. The provision for income taxes differed from the statutory rate for the three and six months ended September 30, 2020 primarily due to state income taxes, excess tax deductions related to stock compensation, a change in indefinite reinvestment assertion related to the investment in a foreign subsidiary, foreign tax credits, adjustments related to state tax returns and state R&D credits, the provision for global intangible low-taxed income ("GILTI") and an increase in the reserves for uncertain tax provisions.

For the three months ended September 30, 2019, we earned \$12.5 million from continuing operations before taxes and provided for income taxes of \$3.6 million, resulting in an effective tax rate of 29.2%. For the six months ended September 30, 2019, we earned \$32.2 million from continuing operations before taxes and provided for income taxes of \$8.0 million, resulting in an effective tax rate of 24.9%. The provision for income taxes differed from the statutory rate for the three and six months ended September 30, 2019, primarily due to the provision for GILTI, adjustments related to foreign items, excess tax deductions related to stock compensation and adjustments related to state tax returns.

We are currently under examination by the state of Illinois for the fiscal years ended March 31, 2018 and 2017. We have not been notified of any material adjustments.

## 16. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30,	
	2020	2019
Currency translation adjustments:		
Balance at beginning of period	\$ (7,847)	\$ (6,611)
Adjustments for foreign currency translation	1,052	(669)
Balance at end of period	<u>\$ (6,795)</u>	<u>\$ (7,280)</u>
Interest rate swaps:		
Balance at beginning of period	\$ (1,445)	\$ (691)
Unrealized gain (losses), net of taxes of \$0 and \$62, respectively (a)	1	(232)
Reclassification of losses included in interest expense, net, net of taxes of \$(16) and \$(4), respectively	59	15
Other comprehensive income (loss)	60	(217)
Balance at end of period	<u>\$ (1,385)</u>	<u>\$ (908)</u>
Defined benefit plans:		
Balance at beginning of period	\$ (875)	\$ (3,470)
Amortization of net losses, net of taxes of \$(1) and \$(4), respectively (b)	4	18
Pension plan termination, net of taxes of \$0 and \$(669), respectively	—	2,516
Other comprehensive income	4	2,534
Balance at end of period	<u>\$ (871)</u>	<u>\$ (936)</u>

	Six Months Ended September 30,	
	2020	2019
Currency translation adjustments:		
Balance at beginning of period	\$ (9,185)	\$ (6,869)
Adjustments for foreign currency translation	2,390	(411)
Balance at end of period	<u>\$ (6,795)</u>	<u>\$ (7,280)</u>
Interest rate swaps:		
Balance at beginning of period	\$ (1,390)	\$ (394)
Unrealized losses, net of taxes of \$28 and \$143, respectively (a)	(105)	(538)
Reclassification of losses included in interest expense, net, net of taxes of \$(29) and \$(6), respectively	110	24
Other comprehensive income (loss)	5	(514)
Balance at end of period	<u>\$ (1,385)</u>	<u>\$ (908)</u>
Defined benefit plans:		
Balance at beginning of period	\$ (871)	\$ (3,466)
Amortization of net losses, net of taxes of \$0 and \$(4), respectively (b)	—	14
Pension plan termination, net of taxes of \$0 and \$(669), respectively	—	2,516
Other comprehensive income	—	2,530
Balance at end of period	<u>\$ (871)</u>	<u>\$ (936)</u>

(a) Unrealized gains (losses) are reclassified to earnings as underlying cash interest payments are made. We expect to recognize a loss of \$0.2 million, net of deferred taxes, over the next twelve months related to designated cash flow hedges based on their fair values at September 30, 2020.

(b) Amortization of actuarial losses out of accumulated comprehensive loss are included in the computation of net periodic pension expense. See Note 13 for additional information.

## 17. REVENUE RECOGNITION

Refer to Note 19 to our consolidated financial statements included in our Annual Report for a description of our disaggregation of revenues. Disaggregation of revenues reconciled to our reportable segments is as follows (in thousands):

	Three Months Ended September 30, 2020			Six Months Ended September 30, 2020		
	Industrial Products	Specialty Chemicals	Total	Industrial Products	Specialty Chemicals	Total
Build-to-order	\$ 21,483	\$ —	\$ 21,483	\$ 42,026	\$ —	\$ 42,026
Book-and-ship	51,010	32,447	83,457	91,706	62,172	153,878
Net revenues	<u>\$ 72,493</u>	<u>\$ 32,447</u>	<u>\$ 104,940</u>	<u>\$ 133,732</u>	<u>\$ 62,172</u>	<u>\$ 195,904</u>
	Three Months Ended September 30, 2019			Six Months Ended September 30, 2019		
	Industrial Products	Specialty Chemicals	Total	Industrial Products	Specialty Chemicals	Total
Build-to-order	\$ 22,041	\$ —	\$ 22,041	\$ 41,242	\$ —	\$ 41,242
Book-and-ship	40,728	38,555	79,283	84,879	77,536	162,415
Net revenues	<u>\$ 62,769</u>	<u>\$ 38,555</u>	<u>\$ 101,324</u>	<u>\$ 126,121</u>	<u>\$ 77,536</u>	<u>\$ 203,657</u>

Contract liabilities, which are included in accrued and other current liabilities in our condensed consolidated balance sheets were as follows (in thousands):

Balance at April 1, 2020:	\$	2,892
Revenue recognized during the period		(1,625)
New contracts and revenue added to existing contracts during the period		1,683
Balance at September 30, 2020	\$	<u>2,950</u>

## 18. SEGMENTS

As discussed in Note 20 to our consolidated financial statements in our Annual Report, we conduct our operations through two business segments based on type of product and how we manage the business: Industrial Products and Specialty Chemicals.

### Three Months Ended September 30, 2020:

(in thousands)	Industrial Products	Specialty Chemicals	Subtotal - Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 72,493	\$ 32,447	\$ 104,940	\$ —	\$ 104,940
Operating income	19,727	5,815	25,542	(3,362)	22,180

### Three Months Ended September 30, 2019:

(in thousands)	Industrial Products	Specialty Chemicals	Subtotal - Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 62,769	\$ 38,555	\$ 101,324	\$ —	\$ 101,324
Operating income	16,413	7,142	23,555	(3,433)	20,122

### Six months ended September 30, 2020

(in thousands)	Industrial Products	Specialty Chemicals	Subtotal - Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 133,732	\$ 62,172	\$ 195,904	\$ —	\$ 195,904
Operating income	36,034	9,761	45,795	(7,363)	38,432

### Six months ended September 30, 2019

(in thousands)	Industrial Products	Specialty Chemicals	Subtotal - Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 126,121	\$ 77,536	\$ 203,657	\$ —	\$ 203,657
Operating income	33,456	13,765	47,221	(6,777)	40,444

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

The following discussion and analysis of our continuing operations 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, 2020 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 two business segments: Industrial Products and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing and life safety solutions to our customers. Our products include mechanical products for heating, ventilation, air conditioning and refrigeration ("HVAC/R"), building products and high-performance specialty lubricants and sealants. End markets that we serve include HVAC/R, architecturally-specified building products, plumbing, energy, rail, mining and general industrial. Our manufacturing operations are concentrated in the United States ("U.S.") and Canada, but we also have distribution operations in Australia, Canada and the United Kingdom ("U.K."). Our products are sold directly to end users or through designated channels in over 100 countries around the world, including: Australia, Brazil, Canada, China, Colombia, the Netherlands, Russia, South Africa, Sweden, the U.K. and the U.S.

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. We have a source of recurring revenue from our end users' maintenance, repair and overhaul activities and the consumable nature of many of our products. We also provide some custom and semi-custom products that strengthen and enhance our customer relationships. The reputation of our product portfolio is built on more than 100 highly respected industrial brands including No. 5®, KOPR-KOTE®, Kats Coatings®, Safe-T-Switch®, Air Sentry®, Deacon®, Leak Freeze® and Greco®.

We believe that our broad portfolio of products and markets served, as well as our brand recognition, will continue to provide opportunities; however, we face ongoing challenges affecting many companies, such as environmental and other regulatory compliance, combined with overall global economic uncertainty.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. COVID-19 continues to spread throughout the world and has created a recessionary environment in the U.S. and around the globe. During the three and six months ended September 30, 2020, we experienced a decline in demand in some of the end markets we serve to varying degrees. Combined with significant volatility in oil prices that occurred in the first fiscal quarter to date, both factors had a negative impact on our financial results.

All of our operations and products support critical infrastructure and are considered "essential" in all of the relevant jurisdictions in which we operate. In response to the COVID-19 pandemic, we took numerous measures across our operating sites to ensure we continue to place the highest priority on the health, safety and well-being of our employees, while continuing to support our customers. Through the date of this filing, our businesses have continued to operate throughout the COVID-19 pandemic with appropriate safeguards for our employees and without any material disruptions.

We continue to expect our results of operations and financial condition to be adversely impacted through the duration of the pandemic due to its effects on the economy and demand for our products and services, though we expect the magnitude of the adverse impact to be mixed across our served end markets. However, we cannot reasonably estimate the magnitude or length of the adverse impact due to continued uncertainty regarding (1) the duration and severity of the COVID-19 pandemic and (2) the extent of the potential short and long-term impact on our facilities and employees, customer demand and availability of materials through supply channels.

## RESULTS OF OPERATIONS

The following discussion provides an analysis of our condensed consolidated results of continuing operations and results for each of our segments. All acquisitions are described in Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

### Revenues, net

(Amounts in thousands)	Three Months Ended September 30,	
	2020	2019
Revenues, net	\$ 104,940	\$ 101,324

  

(Amounts in thousands)	Six Months Ended September 30,	
	2020	2019
Revenues, net	\$ 195,904	\$ 203,657

Net revenues for the three months ended September 30, 2020 increased \$3.6 million, or 3.6%, as compared with the three months ended September 30, 2019. The increase was primarily due to increased sales volumes into HVAC/R (\$10.9 million) and plumbing (\$1.9 million), partially offset by decreased sales volumes into energy (\$3.7 million), general industrial (\$3.3 million), rail (\$1.3 million) and architecturally-specified building products (\$0.7 million) end markets.

Net revenues for the six months ended September 30, 2020 decreased \$7.8 million, or 3.8%, as compared with the six months ended September 30, 2019. The decrease was primarily due to decreased sales volumes into general industrial (\$6.5 million), energy (\$6.0 million), rail (\$3.0 million), architecturally-specified building products (\$1.0 million) and mining (\$0.9 million) end markets, partially offset by increased sales volumes into the HVAC/R (\$9.3 million) and plumbing (\$0.5 million) end markets.

### Gross Profit and Gross Profit Margin

(Amounts in thousands, except percentages)	Three Months Ended September 30,	
	2020	2019
Gross profit	\$ 48,736	\$ 47,404
Gross profit margin	46.4 %	46.8 %

  

(Amounts in thousands, except percentages)	Six Months Ended September 30,	
	2020	2019
Gross profit	\$ 91,488	\$ 94,639
Gross profit margin	46.7 %	46.5 %

Gross profit for the three months ended September 30, 2020 increased \$1.3 million, or 2.8%, as compared with the three months ended September 30, 2019. The increase was primarily a result of the impact of increased sales, partially offset by a \$0.8 million gain on sale of property, plant and equipment in the prior year that did not recur. Gross profit margin of 46.4% for the three months ended September 30, 2020 decreased slightly as compared with 46.8% for the three months ended September 30, 2019. The decrease in gross profit margin is primarily due to the \$0.8 million gain on sale of property, plant and equipment.

Gross profit for the six months ended September 30, 2020 decreased \$3.2 million, or 3.3%, as compared with the six months ended September 30, 2019. The decrease in gross profit was due to decreased sales and a \$0.8 million gain on sale of property, plant and equipment in the prior year that did not recur. Gross profit margin of 46.7% for the six months ended September 30, 2020 increased slightly as compared with the six months ended September 30, 2019, due to the discrete costs relating to a project in architecturally-specified building products in the prior year that did not recur, partially offset by the \$0.8 million gain on sale of property, plant and equipment.

## Operating Expenses

(Amounts in thousands, except percentages)	Three Months Ended September 30,	
	2020	2019
Operating expenses	\$ 26,556	\$ 27,282
Operating expenses as a percentage of revenues, net	25.3 %	26.9 %

(Amounts in thousands, except percentages)	Six Months Ended September 30,	
	2020	2019
Operating expenses	\$ 53,056	\$ 54,195
Operating expenses as a percentage of revenues, net	27.1 %	26.6 %

Operating expenses for the three months ended September 30, 2020 decreased \$0.7 million, or 2.7%, as compared with the three months ended September 30, 2019. The decrease in operating expenses was primarily due to reduced travel-related expenses (\$1.2 million), partially offset by an increase in personnel-related expenses. The decrease in operating expenses as a percentage of revenues was primarily attributable to increased revenues.

Operating expenses for the six months ended September 30, 2020 decreased \$1.1 million, or 2.1%, as compared with the six months ended September 30, 2019. The decrease in operating expenses was primarily due to reduced spend on travel-related expenses (\$2.2 million), partially offset by severance costs resulting from the departure of a former executive officer (\$0.5 million). The increase in operating expenses as a percentage of sales was attributable to decreased sales.

## Operating Income

(Amounts in thousands, except percentages)	Three Months Ended September 30,	
	2020	2019
Operating income	\$ 22,180	\$ 20,122
Operating margin	21.1 %	19.9 %

(Amounts in thousands, except percentages)	Six Months Ended September 30,	
	2020	2019
Operating income	\$ 38,432	\$ 40,444
Operating margin	19.6 %	19.9 %

Operating income for the three months ended September 30, 2020 increased \$2.1 million, or 10.2%, as compared with the three months ended September 30, 2019, primarily as a result of the increase in gross profit and a decrease in operating expenses, as discussed above.

Operating income for the six months ended September 30, 2020 decreased \$2.0 million, or 5.0%, as compared with the six months ended September 30, 2019, primarily as a result of the decrease in gross profit, partially offset by a decrease in operating expenses, as discussed above.

## Other Income and Expense

Net interest expense of \$0.3 million for the three months ended September 30, 2020 was comparable to the three months ended September 30, 2019. Net interest expense of \$0.6 million for the six months ended September 30, 2020 decreased \$0.2 million as compared with the six months ended September 30, 2019. The decrease was attributable to lower average outstanding long-term debt and lower interest rate.

Other expense, net decreased \$7.0 million to net expense of \$0.4 million for the three months ended September 30, 2020 as compared with net expense of \$7.4 million for the three months ended September 30, 2019. The decrease is due to \$7.0 million of expenses recognized in connection with the termination of our U.S. defined benefit pension plan in the prior year. Other

expense, net was a net loss of \$0.7 million for the six months ended September 30, 2020 as compared with net loss of \$7.5 million for the six months ended September 30, 2019. The decrease in net loss was due to \$7.0 million of expenses recognized in connection with the termination of our U.S. defined benefit pension plan in the prior year, partially offset by an increase in losses arising from transactions in currencies other than our sites' functional currencies.

#### *Provision for Income Taxes and Effective Tax Rate*

For the three months ended September 30, 2020, we earned \$21.5 million from continuing operations before taxes and provided for income taxes of \$5.2 million, resulting in an effective tax rate of 24.1%. For the six months ended September 30, 2020, we earned \$37.2 million from continuing operations before taxes and provided for income taxes of \$8.9 million, resulting in an effective tax rate of 23.8%. The provision for income taxes differed from the statutory rate for the three and six months ended September 30, 2020 primarily due to state income taxes, excess tax deductions related to stock compensation, a change in indefinite reinvestment assertion related to the investment in a foreign subsidiary, foreign tax credits, adjustments related to state tax returns and state R&D credits, the provision for global intangible low-taxed income ("GILTI") and an increase in the reserves for uncertain tax provisions.

For the three months ended September 30, 2019, we earned \$12.5 million from continuing operations before taxes and provided for income taxes of \$3.6 million, resulting in an effective tax rate of 29.2%. For the six months ended September 30, 2019, we earned \$32.2 million from continuing operations before taxes and provided for income taxes of \$8.0 million, resulting in an effective tax rate of 24.9%. The provision for income taxes differed from the statutory rate for the three and six months ended September 30, 2019, primarily due to the provision for GILTI, adjustments related to foreign items, excess tax deductions related to stock compensation and adjustments related to state tax returns.

We are currently under examination by the state of Illinois for the fiscal years ended March 31, 2018 and 2017. We have not been notified of any material adjustments.

#### **Business Segments**

We conduct our operations through two 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 two 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.

(Amounts in thousands)	<b>Three Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Revenues, net	\$ 72,493	\$ 62,769
Operating income	19,727	16,413
Operating margin	27.2 %	26.1 %

(Amounts in thousands)	<b>Six Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Revenues, net	\$ 133,732	\$ 126,121
Operating income	36,034	33,456
Operating margin	26.9 %	26.5 %

Net revenues for the three months ended September 30, 2020 increased \$9.7 million, or 15.5%, as compared with the three months ended September 30, 2019. The increase was primarily due to increased sales volumes into HVAC/R (\$10.7 million) and plumbing (\$1.2 million), partially offset by decreased sales volumes into general industrial (\$1.1 million), rail (\$0.7 million) and architecturally-specified building products (\$0.6 million) end markets.



Net revenues for the six months ended September 30, 2020 increased \$7.6 million, or 6.0%, as compared with the three months ended September 30, 2019. The increase was primarily due to the increased sales volumes into HVAC/R (\$9.4 million), plumbing (\$1.0 million) and architecturally-specified building products (\$0.7 million) end markets, partially offset by decreased sales volumes into general industrial (\$2.0 million) and rail (\$1.6 million) end markets.

Operating income for the three months ended September 30, 2020 increased \$3.3 million, or 20.2%, as compared with the three months ended September 30, 2019. The increase was primarily due to the impact of increased sales, partially offset by increases in enterprise resource planning ("ERP") system-related expenses and personnel-related expenses.

Operating income for the six months ended September 30, 2019 increased \$2.6 million, or 7.7%, as compared with the six months ended September 30, 2019. The increase was due primarily to the impact of increased sales, partially offset by increases in ERP system-related expenses and personnel-related expenses.

### Specialty Chemicals Segment Results

Specialty Chemicals is comprised of pipe thread sealants, firestopping sealants and caulks, adhesives/solvent cements, lubricants and greases, drilling compounds, anti-seize compounds, chemical formulations, and degreasers and cleaners.

(Amounts in thousands)	Three Months Ended September 30,	
	2020	2019
Revenues, net	\$ 32,447	\$ 38,555
Operating income	5,815	7,142
Operating margin	17.9 %	18.5 %

(Amounts in thousands)	Six Months Ended September 30,	
	2020	2019
Revenues, net	\$ 62,172	\$ 77,536
Operating income	9,761	13,765
Operating margin	15.7 %	17.8 %

Net revenues for the three months ended September 30, 2020 decreased \$6.1 million, or 15.8%, as compared with the three months ended September 30, 2019. The decrease was primarily due to decreased sales volumes into energy (\$3.7 million), general industrial (\$2.2 million), rail (\$0.5 million) and mining (\$0.2 million) end markets, partially offset by increased sales volumes into plumbing (\$0.7 million) and HVAC/R (\$0.2 million) end markets.

Net revenues for the six months ended September 30, 2020 decreased \$15.4 million, or 19.8%, as compared with the three months ended September 30, 2019. The decrease was primarily due to decreased sales volumes into energy (\$6.0 million), general industrial (\$4.5 million), architecturally-specified building products (\$1.8 million), rail (\$1.4 million), mining (\$0.9 million) and plumbing (\$0.5 million) end markets.

Operating income for the three months ended September 30, 2020 decreased \$1.3 million, or 18.6%, as compared with the three months ended September 30, 2019. The decrease was due to decreased revenues and a \$0.8 million gain on sale of property, plant and equipment in the prior year that did not recur, partially offset by decreases in travel-related expenses, personnel-related expenses and sales commissions.

Operating income for the six months ended September 30, 2020 decreased \$4.0 million, or 29.1%, as compared with the three months ended September 30, 2019. The decrease was due to decreased revenues and a \$0.8 million gain on sale of property, plant and equipment in the prior year that did not recur, partially offset by decreases in travel-related expenses, personnel-related expenses, and sales commissions.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow Analysis

(Amounts in thousands)	Six Months Ended September 30,	
	2020	2019
Net cash provided by operating activities, continuing operations	\$ 44,783	\$ 37,496
Net cash used in investing activities, continuing operations	(4,351)	(15,319)
Net cash used in financing activities	(12,274)	(25,155)

Existing cash, cash generated by continuing 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 cash equivalents) at September 30, 2020 was \$47.3 million, as compared with \$18.3 million at March 31, 2020.

For the six months ended September 30, 2020, our cash provided by operating activities from continuing operations was \$44.8 million, as compared with \$37.5 million for six months ended September 30, 2019.

- Working capital provided cash for the six months ended September 30, 2020 due to lower accounts receivable (\$5.0 million), higher accounts payable and other current liabilities (\$2.0 million) and lower inventories (\$0.9 million), partially offset by higher prepaid expenses and other current assets (\$2.4 million).
- Working capital used cash for the six months ended September 30, 2019 due to lower accounts payable and other current liabilities (\$3.1 million), higher accounts receivable (\$1.1 million) and higher inventories (\$0.9 million), partially offset by lower prepaid expenses and other current assets (\$3.0 million).

Cash flows used in investing activities from continuing operations during the six months ended September 30, 2020 were \$4.4 million, as compared with \$15.3 million for the six months ended September 30, 2019.

- Capital expenditures during the six months ended September 30, 2020 and 2019 were \$4.4 million and \$4.6 million, respectively. Our capital expenditures have been focused on new product introductions, capacity expansion, ERP systems, continuous improvement and automation.
- During the six months ended September 30, 2019, we acquired Petersen for \$11.8 million, as discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Cash flows used in financing activities during the six months ended September 30, 2020 and 2019 were \$12.3 million and \$25.2 million, respectively. Cash outflows resulted from:

- Net repayments on our line of credit and term loan (as discussed in Note 7 to our condensed consolidated financial statements included in this Quarterly Report) of \$0.3 million and \$20.3 million during the six months ended September 30, 2020 and 2019, respectively.
- Repurchases of shares under our share repurchase program (as discussed in Note 11 to our condensed consolidated financial statements included in this Quarterly Report) of \$7.3 million and \$0 during the six months ended September 30, 2020 and 2019, respectively.
- Dividend payments of \$4.0 million and \$4.1 million during the six months ended September 30, 2020 and 2019, respectively.

We believe that available cash and cash equivalents, cash flows generated through continuing 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 the 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 September 30, 2020.

We have entered into an interest rate swap agreement to hedge our exposure to variable interest payments related to our indebtedness. This agreement is more fully described in Note 9 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 September 30, 2020, 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 six months ended September 30, 2020.

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;
- adverse changes in global economic conditions, including changes resulting from the effects of the COVID-19 pandemic;
- 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. We assume no obligation to update or revise these forward-looking statements, except as required by law.

### **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 the risk associated with changes in interest rates through regular operating and financing activities, and when deemed appropriate, through the use of an interest rate swap. 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 September 30, 2020, we had \$0 in outstanding variable rate indebtedness, after consideration of our interest rate swap. We manage, or hedge, interest rate risks related to our borrowings by means of an interest rate swap agreement. At September 30, 2020, we had an interest rate swap agreement that covered 100.0% of our \$10.6 million total outstanding indebtedness. 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 recognized foreign currency transaction net losses of \$0.3 million and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.5 million and \$0.2 million for the six months ended September 30, 2020 and 2019, respectively, which are included in other expense, net on our condensed consolidated statements of income. We realized a net gain/(loss) associated with foreign currency translation of \$1.1 million and \$(0.7) million for the three months ended September 30, 2020 and 2019, respectively, and \$2.4 million and \$(0.4) million for the six months ended September 30, 2020 and 2019, respectively, which are included in accumulated other comprehensive income (loss).

Based on a sensitivity analysis at September 30, 2020, a 10% change in the foreign currency exchange rates for the three and six months ended September 30, 2020 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 Quarterly 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 quarter ended September 30, 2020 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 14 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 from time to time named defendants in certain lawsuits incidental to our business, including product liability claims that are insured, subject to applicable deductibles, 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 could 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 11 to our condensed consolidated financial statements included in “Item 1. Financial Statements” of this Quarterly Report includes a discussion of our share repurchase programs. The following table represents the number of shares repurchased during the quarter ended September 30, 2020.

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)
July 1 - 31	—	\$ —	—	\$ 29.0
August 1 - 31	82 (b)	73.31	—	29.0
September 1 - 30	—	—	—	29.0
Total	82			

(a) On November 7, 2018, we announced that our Board of Directors authorized a program allowing us to repurchase shares of our common stock up to an aggregate market value of \$75.0 million during a two-year period. The program may be limited or terminated at any time. As of September 30, 2020, 740,137 shares of our common stock had been repurchased under the program for an aggregate of \$46.0 million.

(b) Represents shares tendered by employees to satisfy minimum tax withholding amounts for restricted share vesting at an average price per share of \$73.31.

## Item 6. Exhibits

Exhibit No.	Description
3.1	<a href="#"><u>Third Amended and Restated Certificate of Incorporation of CSW Industrials, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on August 15, 2018)</u></a>
3.2	<a href="#"><u>CSW Industrials, Inc. Amended and Restated Bylaws, adopted and effective August 14, 2018 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on August 15, 2018)</u></a>
31.1*	<a href="#"><u>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.</u></a>
31.2*	<a href="#"><u>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.</u></a>
32.1**	<a href="#"><u>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.</u></a>
32.2**	<a href="#"><u>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.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation LinkBase Document
101.DEF	XBRL Taxonomy Extension Definition LinkBase Document
101.LAB	XBRL Taxonomy Extension Label LinkBase Document
101.PRE	XBRL Taxonomy Extension Presentation LinkBase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Filed herewith

\*\* Furnished herewith

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.

October 30, 2020

/s/ Joseph B. Armes

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

October 30, 2020

/s/ James E. Perry

James E. Perry  
Chief Financial Officer  
(Principal Financial Officer)



**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 September 30, 2020 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: October 30, 2020

/s/ Joseph B. Armes

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

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

I, James E. Perry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 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: October 30, 2020

/s/ James E. Perry

James E. Perry  
Chief Financial Officer  
(Principal Financial Officer)

**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 September 30, 2020, 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: October 30, 2020

/s/ Joseph B. Armes

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

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

I, James E. Perry, 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 September 30, 2020, 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: October 30, 2020

/s/ James E. Perry

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James E. Perry  
Chief Financial Officer  
(Principal Financial Officer)