



2017 Annual Report



CSW
INDUSTRIALS

About CSW Industrials

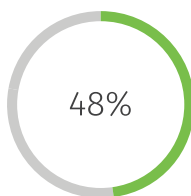
CSW Industrials, Inc. is a diversified industrial growth company with well established, scalable platforms and domain expertise across three segments: **Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals.**

We provide value to our customers through offering a broad, yet complementary portfolio of leading products that provide performance optimizing solutions for diverse industrial and construction applications. The markets we serve with our well-known brands include HVAC/R, building products, industrial, rail, energy, plumbing and mining.

HIGHLIGHTS

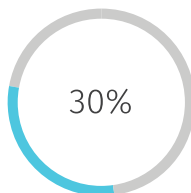
- Finished year with strong organic growth
- Completed footprint rationalization within Specialty Chemicals
- Acquired Greco Aluminum Railings
- Experienced double digit revenue growth within Industrial Products segment

FISCAL 2017 REVENUE BY SEGMENT



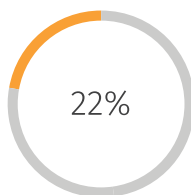
Industrial Products

Specialized industrial products including HVAC/R mechanical products, building safety products, fire/smoke prevention products and lubricating and filtration equipment.



Coatings, Sealants & Adhesives

High-performance coatings, pipe thread sealants, adhesives and fire-stop caulks, essential in transportation, manufacturing, construction and agriculture.



Specialty Chemicals

Engineered specialty lubricants and greases, specialty chemicals, degreasers and cleaners for oilfield, industrial, rail, HVAC/R and mining applications.

Industries We Serve

CSW Industrials offers a broad diversity of products and solutions that are often complementary, enabling us to better serve our customers through scalability, operational efficiencies, and service-focused distribution networks.

In all of our products and solutions, performance and reliability are common qualities. This has earned us the enduring confidence of our customers in every industry we serve. Currently, these industries include HVAC/R, building products, industrial, rail, plumbing, energy, and mining.

HVAC/R

Whether it's new construction, repair or replacement projects, HVAC/R contractors have their hands full. CSW Industrials delivers, with an extensive array of trusted products that includes **Safe-T-Switch**® condensate switches, as well as **Goliath**® condensate pans, **Airtec**® air diffusers, **Aspen**® condensate pumps, **NoVent**® refrigerant locking caps, **AC Leak Freeze**® leak stopping systems and **Fortress**® line set covers.

We are constantly evolving and innovating to keep up with the latest industry trends to ensure that our customers have access to the most effective solutions available, and support them with a broad distribution network for timely delivery.

BUILDING PRODUCTS

As larger and taller buildings are being designed and built, contractors are looking for reliable solutions that meet architectural specifications and safety codes—in both domestic and international markets—in an aesthetically pleasing manner. With known brands and a solid reputation, we deliver those solutions.

CSW Industrials manufactures products such as **Smoke Guard**® fire and smoke prevention curtains, **Greco**® engineered aluminum & glass railings, **Metacaulk**® intumescent firestopping sealants and **Balco**® expansion joint covers and stair nosings for large commercial and multi-family buildings, institutions, airports and parking garages.

INDUSTRIAL

CSW Industrials provides a comprehensive range of industrial products to customers who manufacture chemicals, steel, equipment and various other materials. Currently, our products in this end market include **American Coatings**® industrial specialty coatings, **Whitmore**® and **Jet-Lube**® lubricants, **Deacon**® sealants and **Air Sentry**® breathers. Our offerings continue to expand, due to both acquisition and relentless innovation.

RAIL

To meet the ongoing challenges of the rail industry, CSW Industrials leverages its technical expertise to build key relationships and ensure its products meet required specifications. With a portfolio including **Strathmore®** protective coatings, **RailArmor®** lubricants and **AccuTrack®** lubricating devices, our solutions help to increase efficiency, reduce noise, and extend the design life of rail cars and locomotives.

ENERGY

With an extensive product offering, CSW Industrials serves upstream, midstream, and downstream customers in the oil and gas industry. We are committed to making their jobs easier by helping them protect their assets.

To help operators maintain oilfield drilling equipment, we provide advanced **Jet-Lube®** lubricants and greases, and **KOPR KOTE®** anti-seize compounds. Our products also include **American Coatings®** brand protective coatings for storage tanks, drum containers, and general refinery maintenance.

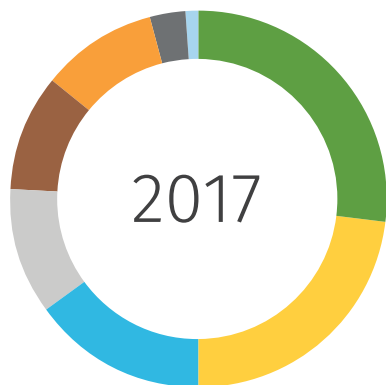
PLUMBING

CSW Industrials serves the plumbing industry with a wide range of products. For generations, professional plumbers have been using our industry leading solvent cements, traps, vents and, of course, our well-known **RectorSeal No. 5®** thread sealants. Trusted by contractors, our solutions are available through a broad distribution network to ensure local support, prompt delivery and reliable supply.

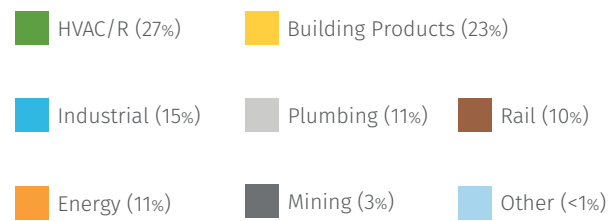
MINING

Mining operations occur under some of the world's most demanding conditions. For large excavation equipment, maintaining peak productivity and limiting unscheduled downtime requires effective lubrication management.

Through our brands, **Caliber™** and **Paragon™ Gold**, we offer a line of industry-leading lubricants for open gearboxes, supported by an extensive distribution network to ensure availability.



REVENUE BY INDUSTRY



To Our Stockholders:



Joseph B. Armes
Chairman & Chief Executive Officer

Fiscal 2017 was a landmark year for CSW Industrials, as it marked the completion of our first full year as a public company. After successfully completing our spin-off from Capital Southwest Corporation in September 2015, fiscal 2017 was a year of transition for our organization. Throughout the year, we focused on three main initiatives. The first initiative was positioning the company for success as a newly-created public company. This involved building out our executive leadership team, establishing an integrated management structure, and enhancing critical functions to support our public company status, including compliance and internal controls. The second initiative related to rationalizing and optimizing our operations, where we sought to remove costs from the business and integrate our operating companies for increased efficiencies. The third initiative was continuing our focus on and commitment to growth, both organically and through acquisition, which is a key element of our strategic plan. Across the company and within our business segments, these initiatives produced unique challenges and opportunities, through which we achieved several meaningful milestones.

Our Industrial Products segment, which represented approximately 48% of our fiscal 2017 revenues, experienced record levels of revenue and profitability, taking advantage of robust conditions in several

end markets. In the fourth quarter of fiscal 2017, we completed the acquisition of Greco Aluminum Railings, a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures in the United States and Canada. The acquisition demonstrates our focus on inorganic growth and reinforces our strategy of identifying best-in-class products and leveraging existing routes to market to drive profitable growth. Greco represents a strong strategic fit with our architecturally specified building products category in Industrial Products, and we are pleased to welcome the Greco team to the CSW Industrials family.

Within our Specialty Chemicals segment, which represented approximately 30% of our fiscal 2017 revenues, we successfully integrated and optimized our Whitmore and Jet-Lube manufacturing footprint. The consolidation of manufacturing into our Rockwall, TX facility was an excellent example of the many benefits of our new, integrated company structure. We generated significant cost savings from this consolidation during fiscal 2017, and we expect additional cost savings and synergies going forward under this optimized manufacturing plan.

Within our Coatings, Sealants & Adhesives segment, which represented approximately 22% of our fiscal 2017 revenue, we rationalized and upgraded our manufacturing capacity in response to continued challenging end market conditions. We prudently removed costs from the business, but equally as important, we restructured our go-to-market strategy to accelerate our sales diversification efforts and better position the business for success through the economic cycle. We are nearing completion of the consolidation of our coatings products manufacturing footprint to rationalize capacity and improve operational efficiency, which we expect to generate measurable savings while positioning this business for growth in the future.

Around the entire organization, we took advantage of the opportunity to promote cross selling of our broad, complementary portfolio of products, and this remains



a significant source of potential value going forward. Integrating operations and finance functions across our business enabled us to collaborate and share best practices to further optimize performance. As a result, we realized meaningful efficiencies in areas such as procurement and research and development, and we identified additional opportunities to improve performance, such as working capital management. Further positioning the organization for success, we made several key leadership changes within the organization to support and advance all of these efforts, as we execute on our strategic plan in our new, integrated public-company structure.

We also expanded the board by adding two outstanding independent directors, Terry Johnston and Kent Sweezey, fulfilling the commitment we made to our stockholders last year. Through expanding the board, we believe we have added relevant skills and expertise to help guide the successful execution of our strategic growth and capital allocation plans.

Looking to the future, we are pleased to enter fiscal 2018 with most of our restructuring initiatives behind us. Our progress over the last year has positioned us well to capitalize on the numerous opportunities provided by our restructuring, and our management team is singularly focused on leveraging our improved

operating platform to deliver increased value to our customers and stockholders. Growth through acquisition remains a key element of our strategic plan, and we will continue our disciplined process of pursuing accretive acquisitions that complement our existing product portfolio and leverage our routes to market to drive growth.

Speaking on behalf of CSW Industrials' management team and board of directors, we remain focused on prudent stewardship of our stockholders' capital and disciplined in how we allocate that capital throughout the business. We plan to accomplish this while living out our core values and emphasizing employee health and safety.

We value and appreciate your confidence in our company's future and your continued support of CSW Industrials.

Sincerely,

Joseph B. Armes
Chairman and Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended **March 31, 2017**

OR

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

For the transition period from _____ to _____.

Commission file number **001-37454**

CSW INDUSTRIALS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(state or other jurisdiction of
incorporation or organization)

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

(Address of principal executive offices)

47-2266942
(I.R.S. Employer
Identification No.)

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
Common Stock, par value \$0.01 per share

Name of each exchange on which registered
Nasdaq Stock Market LLC

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

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the 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"/> |
|--|---|---|--|--|

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 ☒

The aggregate market value of the registrant's common stock held by non-affiliates, based on the last sale price for the common stock as reported by the Nasdaq Global Select Market on September 30, 2016, the last business day of our most recently completed second fiscal quarter was approximately \$508.9 million.

As of June 6, 2017, the latest practicable date, 15,890,054 shares of the registrant's common stock, par value \$0.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive proxy statement for the registrant's 2017 Annual Meeting of Stockholders scheduled to be held on August 15, 2017 is incorporated by reference into Part III hereof.

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PART I

Unless otherwise specified, or the context otherwise requires, the references in this Annual Report on Form 10-K for the year ended March 31, 2017 (“Annual Report”) to “our company,” “the Company,” “we,” “us,” “our” or “CSWI” refer to CSW Industrials, Inc. together with our wholly-owned subsidiaries.

ITEM 1: BUSINESS

Overview

We were incorporated in the State of Delaware on November 6, 2014 as a wholly owned subsidiary of Capital Southwest Corporation (“Capital Southwest”). We were formed solely for the purpose of effecting the distribution of our outstanding shares of common stock on a pro rata basis to holders of Capital Southwest common stock (the “Share Distribution”) and to become the owner of a group of manufacturing companies that were held by Capital Southwest prior to the Share Distribution. The Share Distribution was completed on September 30, 2015, resulting in CSWI becoming a standalone, publicly-traded company.

Our Company

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across three business segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilation and air conditioning (“HVAC”) and refrigeration applications, coatings and sealants and high performance specialty lubricants. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and other general industrial markets. Our operations are concentrated in the United States (“U.S.”), but we also have distribution sales in Australia, Canada and the United Kingdom (“U.K.”), and our products are sold directly 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.

Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. We believe that our industrial brands, such as RectorSeal No. 5® and KOPR-KOTE®, are well known in the specific industries we serve and have a reputation for high quality and reliability. Through organic growth and acquisitions, we believe that we are well positioned to offer our customers an increasingly broad portfolio of performance optimizing solutions. We have a successful record of making accretive acquisitions – in the last five fiscal years, we have completed 13 acquisitions for an aggregate purchase price of \$193.7 million. We believe that there are further attractive acquisition opportunities available within the markets in which we operate.

We have a long history of providing high quality specialty chemicals, coatings, sealants and other products, accompanied by dependable service and attention to customer satisfaction. Our specialty lubricants were used on the excavation equipment for the Panama Canal in the late 1800s. We also have a long history of innovation. We believe that we were the first to develop a method for removing internal acid from air conditioning and refrigeration systems, pioneering the market for acid neutralizers. We partner with our customers to solve specific challenges, such as environment-friendly lubricants, which were specifically developed to provide high performance in rail applications combined with biodegradability and no eco-toxicity and to satisfy strict environmental requirements.

Our Competitive Strengths

We believe we have the following competitive strengths:

Broad Portfolio of Industry Leading Products and Solutions

We have a broad portfolio of products with leading industry positions in the specific end markets in which we operate. We believe our products and solutions are differentiated from those of our competitors by superior performance, quality and total value delivered to customers. For example, our RectorSeal No. 5® product is widely regarded as an industry standard for thread sealants for HVAC, plumbing and electrical configurations. Additionally, we believe our KOPR-KOTE® product is recognized as the anti-seize compound of choice for use in oil and gas drilling operations, where it is asked for by name.

Sustainable Organic Revenue Growth and Operating Performance

We focus on end markets with strong growth trends, such as HVAC and construction. We also have a loyal customer base that recognizes the performance and quality of our products and solutions, including continuously evaluating the potential uses of existing products to broaden our market penetration. Further, our customer base is diverse – for the fiscal year ended March 31, 2017, no single customer represented 10% or more of our net revenues.

These factors have enabled us to generate strong margin performance. We are focused on improving our profitability through targeted investments to further optimize our manufacturing processes. For example, in our Coatings, Sealants & Adhesives

segment, we are completing the process of consolidating the manufacturing of some of our coatings products into our Longview, Texas and Acworth, Georgia facilities in order to optimize capacity, improve efficiency and leverage technologies while enhancing product quality. Further, we continually look to refine our manufacturing processes in all of our manufacturing facilities to lower manufacturing costs, increase production capacity and improve product quality.

Stable Platform for Acquisitions with Proven Track Record

We believe that our experience in identifying, completing and integrating acquisitions is one of our core competitive strengths, as evidenced by the 35 acquisitions, which we have successfully completed since 1991. Since April 1, 2012, we have invested \$193.7 million in acquisitions that either (1) added new products designed to service our existing end markets, or (2) provided an entry into new, complementary end markets where we can drive revenue growth and improved profitability. Historically, our acquisitions have been relatively small, lower-risk acquisitions of a product that we have identified as having the potential to benefit from our extensive distribution network and manufacturing efficiencies. We have also consummated larger acquisitions that complement our business model.

We completed one acquisition during the fiscal year ended March 31, 2017, and three acquisitions during the fiscal year ended March 31, 2016. Effective March 1, 2017, we acquired Greco Aluminum Railings, a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures. Effective April 1, 2015, we acquired substantially all of the assets of Strathmore, a leading participant in the coatings market. Effective October 1, 2015, we acquired substantially all of the assets of Deacon Industries, Inc., a leading manufacturer of high temperature sealants and injectable packings. Effective December 15, 2015, we acquired substantially all of the assets of AC Leak Freeze, a leading manufacturer of original equipment manufacturer-safe air conditioning and refrigerant leak repair solutions.

Culture of Product Enhancement and Customer Centric Solutions

We have a long history of serving our customers with high quality products and solutions. We work closely with our customers, industry experts and research partners to continuously improve our existing products to meet evolving customer and market requirements. Our highly trained and specialized personnel work directly with our current and prospective customers to enhance our product offerings by expanding the use and markets for our existing products. We focus on product enhancements and product line extensions that are designed to meet the specific application needs of our customers. We believe this focus has helped us build strong industrial brands and develop a reputation for high quality, in turn leading us to realize improved customer retention and loyalty. Further, our ability to meet the needs of high-value niche end markets with customized solutions that leverage our existing products has enabled us to differentiate ourselves from our larger competitors that may not have the flexibility or interest in responding quickly to evolving customer demands in these smaller, niche markets.

Diverse Sales and Distribution Channels

Many of our products are sold through service-intensive distribution networks committed to technical support and customer satisfaction. We primarily market through an international network of independent manufacturer representatives and agents calling on our wholesale distributors, contractors and direct customers. The strong, long-term relationships we have developed with our wholesale distribution partners allow us to introduce new products, including both newly developed and acquired products. In addition, our extensive distribution network allows us to reach and serve niche end markets that provide organic growth opportunities and form a key component of our acquisition strategy.

With certain of our products, we also market through a direct sales force focused on specific customer needs. For example, we sell products in our Coatings, Sealants & Adhesive segment directly to rail car and locomotive manufacturers.

Our Growth Strategy

We are focused on creating significant stockholder value over the long term by increasing our revenue, profitability and free cash flow through: (1) expanding the markets and uses for our existing products; and, (2) growing the portfolio of products we manufacture, market and sell through targeted acquisitions. We believe the key drivers of our growth include:

Benefits Resulting from the Share Distribution

Historically, our operating companies functioned as independent companies with discrete strategies and capital structures. The Share Distribution has allowed us, as an independent, standalone company, to pursue a strategy focused on rationalizing our organizational structure and management around our three business segments. We expect this strategy to enable us to realize cost and operational synergies, implement best practices across our operations, cross-sell product offerings and, as a result, grow our market share and increase our profitability.

Additionally, we believe our integrated structure allows us to more effectively allocate capital across our three business segments, enabling more efficient financing of operations and planned growth.

Leveraging Existing Customer Relationships and Products and Solutions

We expect to drive revenue growth by leveraging our reputation for providing high quality products to our long-standing customer base. Our team of sales representatives, engineers and other technical personnel continues to proactively collaborate with our distributors and end users to enhance and adapt existing products and solutions to meet evolving customer needs. In addition, we seek to leverage our existing customer base to cross-sell our products and solutions across our three business segments, thereby driving organic growth.

Focused Acquisitions that Leverage our Distribution Channels

While we are focused on improving our existing products and penetrating new markets with these products, we expect to continue to identify and execute acquisitions that will broaden our portfolio of products and offer attractive risk-adjusted returns. We primarily focus on commercially proven products and solutions that would benefit from a broader distribution network and are attractive to our customers in target end markets. Once acquired, our intent is to utilize our extensive distribution networks to increase revenue by selling those products to our diversified customer base.

Operational Excellence

We focus on operational excellence in all aspects of our business, with the end goals of improved efficiencies and increased profitability. We continue to expand improvement initiatives and information sharing across our operating platform. Since the Share Distribution, we have identified approximately \$10 million in annual savings, driven primarily by facility consolidations and our global procurement initiatives. Across the organization, we generated approximately \$2 million in net annual savings in Fiscal 2017 through our procurement programs. Manufacturing footprint optimization, including the consolidation of our lubrication and grease manufacturing during the fiscal year ended March 31, 2017, is expected to generate approximately \$5 million in annual savings in our Specialty Chemicals segment. We achieved approximately \$3 million of the Specialty Chemicals segment savings during the fiscal year ending March 31, 2017, and full run-rate savings are expected to be achieved during the fiscal year ending March 31, 2018. Additionally, we are completing the process of consolidating the manufacturing of some of our coatings products into our Longview, Texas and Acworth, Georgia facilities in order to optimize capacity and improve efficiency, which we expect to generate approximately \$2 million in annual run rate savings over the next 18 months in our Coatings, Sealants & Adhesives segment. See Note 2 to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” (“Item 8”) of this Annual Report for financial and other information regarding our acquisitions.

Raw Materials and Suppliers

Our products are manufactured using various raw materials, including base oils, copper flake, aluminum, polyvinyl chloride and tetra-hydrofuran. These raw materials are available from numerous sources and we do not anticipate significant shortages of such materials in the future. We generally purchase these raw materials and components as needed. We do not depend on a single source of supply for any significant raw materials.

Intellectual Property

We own a number of trademarks and patents relating to the names and designs of our products. We consider our trademarks and patents to be valuable assets of our business. In addition, our pool of proprietary information, consisting of know-how and trade secrets related to the design, manufacture and operation of our products, is considered particularly valuable. Accordingly, we take proactive measures to protect such proprietary information. In aggregate, we own the rights to the products that we manufacture and sell and are not materially encumbered by licensing or franchise agreements. Our trademarks can typically be renewed indefinitely as long as they remain in use, whereas our existing patents generally expire 10 to 20 years from the dates they were filed, which has occurred at various times in the past. We do not believe that the expiration of any individual patent will have a material adverse impact on our business, financial condition or results of operations.

Export Regulations

We are subject to export control regulations in countries from which we export products and services. These controls may apply by virtue of the country in which the products are located or by virtue of the origin of the content contained in the products. If the controls of a particular country apply, the level of control generally depends on the nature of the goods and services in question. Where controls apply, the export of our products generally requires an export license or authorization (either on a per-product or per transaction basis) or that the transaction qualify for a license exception or the equivalent, and may also be subject to corresponding reporting requirements. See Note 17 to our consolidated financial statements included in Item 8 of this Annual Report for financial and other information regarding our operations on a geographical basis.

Environmental Regulations

Our operations are subject to certain foreign, federal, state and local regulatory requirements relating to environmental, waste management, labor and health and safety matters. Management believes that our business is operated in material compliance

with all such regulations. To date, the cost of such compliance has not had a material impact on our capital expenditures, earnings or competitive position or that of our operating subsidiaries. Despite the existence of policies, practices and procedures to prevent and mitigate risks, violations may occur in the future as a result of human error, equipment failure or other causes. Further, we cannot predict the nature, scope or effect of environmental legislation or regulatory requirements that could be imposed, or how existing or future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by us and could have a material impact on our business, financial condition and results of operations.

Employees

As of March 31, 2017, we employed approximately 750 individuals. Of these employees, 27 are represented by unions. We believe relations with our employees throughout our operations are generally satisfactory, including those employees represented by unions. No unionized facility accounted for more than 10% of our consolidated revenues for the year ended March 31, 2017.




Available Information

We maintain an Internet web site at www.cswindustrials.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) are made available free of charge through the “Investors” section of our Internet website as soon as reasonably practicable after we electronically file the reports with, or furnish the reports to, the U.S. Securities and Exchange Commission (“SEC”).

We also make available free of charge on our website our Corporate Governance Guidelines and Code of Business Conduct and Ethics, as well as the charters of our Audit Committee, our Compensation and Talent Development Committee and our Nominating / Corporate Governance Committee. You may access these documents in the “Corporate Governance” section on the “Investors” page of our website.

Business Segments

We operate in three business segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. The table below provides an overview of these business segments. For financial information regarding our segments, see Note 17 to our consolidated financial statements included in Item 8 of this Annual Report.

| Business Segment | Principal Product Categories | Key End Use Markets | Representative Industrial Brands |
|--------------------------------|---|--|--|
| Industrial Products | <ul style="list-style-type: none"> Specialty mechanical products Fire and smoke protection products Architecturally-specified building products Storage, filtration and application equipment for use with our specialty chemicals and other products | <ul style="list-style-type: none"> Plumbing HVAC Refrigeration Electrical Commercial construction Rail car and locomotive General industrial |  |
| Coatings, Sealants & Adhesives | <ul style="list-style-type: none"> Coatings and penetrants Pipe thread sealants Firestopping sealants and caulks Adhesives/solvent cements | <ul style="list-style-type: none"> Rail car and locomotive Oil and gas Commercial construction Plumbing HVAC Refrigeration Electrical General industrial |  |
| Specialty Chemicals | <ul style="list-style-type: none"> Lubricants and greases Drilling compounds Anti-seize compounds Chemical formulations Degreasers and cleaners | <ul style="list-style-type: none"> Energy Drilling and boring Water well drilling Mining Rail car and locomotive Steel Power generation Cement Aviation Plumbing HVAC Electrical General industrial |  |

Industrial Products

Our Industrial Products business consists of: 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 applications. These industrial products are primarily manufactured internally, although we strategically engage third-party manufacturers for certain products. We ensure the quality of internally- and externally-manufactured products through our stringent quality control review procedures. Our building products are eco-friendly, enabling them to be easily incorporated into the “Green Building” market.

Product Types

Specialty Mechanical Products

- condensate switches, traps and pans
- line set covers
- condensate removal pumps and equipment mounting brackets
- air diffusers for use by professional air conditioning contractors
- tamper resistant locking refrigerant caps
- ductless mini-split systems installation support tools
- drain waste and vent systems mechanical products
- decorative roof drain downspout nozzles
- wire pulling head tools

Brand Names

- Airtec®
- Clean Check®
- EZ Trap®
- Fortress®
- Goliath® Pans
- G-O-N®
- Hubsett™
- Magic Vent®
- Mighty Bracket™
- Novent®
- Safe-T-Switch®
- Slim Duct™
- SureSeal®
- Titan™ Pans
- Wire Grabber™

Fire and Smoke Protection Products

- fire-rated and smoke-rated opening protective systems

- Smoke Guard®

Architecturally-Specified Building Products

- expansion joint covers
- fire barriers
- specialty silicone seals
- stair nosings
- partition closure systems
- entrance mats and grids
- photoluminescent egress markings and signage
- trench and access covers
- architectural grating
- engineered railing

- Balco®
- DuraFlex™
- Greco™
- IllumiTread™
- MetaBlock™
- MetaFlex™
- MetaGrate™
- MetaMat™
- Michael Rizza™
- UltraGrid™

Storage, Filtration and Application Equipment

- lubrication application and management systems
- storage and filtration devices

- Air Sentry®
- Guardian®
- Oil Safe®
- Whitmore Rail™

New Product Development – Customer experience is a core competency in our Industrial Products segment. We gather "voice of the customer" market research through organized focus groups and online surveys, as well as through less formal channels. Ideas for new products or enhancements to existing products are also generated by our relationships with end users, independent sales representatives, distributors and our internal sales and marketing team. We also actively monitor the competitive landscape using a variety of methods. We develop new products and modify existing products in our research and development ("R&D") labs in Houston, Texas; Rockwall, Texas; Boise, Idaho; Wichita, Kansas; and Windsor, Canada.

Competition – Our competition in the Industrial Products segment is varied. Competitors range from small entrepreneurial companies with a single product, to large multinational original equipment manufacturers ("OEMs"). In the specialty mechanical products category, we compete with Diversitech, Supco, Little Giant, Mitsubishi, Cherne, Mainline and JR Smith. Most of these products are sold through distribution channels, and we compete based on breadth of product line, customer service and pricing. In the fire and smoke protection category we compete with Won Door, Stoebich, McKeon and others, typically on the basis of product innovation, knowledge of building codes and customer service. In the architecturally-specified building products category, we compete primarily with Emseal, Inpro, and MM Systems on the basis of product innovation, price and driving architectural specifications. In the lubricant storage, filtration and transfer space, we compete with Des-Case, Hy-Pro, IFH and others on the basis of superior performance, brand strength and breadth of product line.

Customers – Our primary customers for specialty mechanical products are plumbing, HVAC and electrical wholesalers and distributors. Some of these are local single location distributors, but many are regional or national in scope with hundreds of locations. The majority of these products are sold domestically; however, a small portion is sold internationally through similar channels, and a small number of OEMs purchase these products directly. Fire and smoke protection products are sold through local building products distributors who also perform installations and service. Architecturally-specified building products are sold primarily through a network of distributors. Storage, filtration and application products are marketed and sold worldwide through a service-intensive distribution network.

Seasonality – A significant portion of our products are sold into the HVAC market, which is seasonal by nature. While products are sold throughout the year, sales tend to peak during summer months.

Coatings, Sealants & Adhesives

Our Coatings, Sealants & Adhesives segment is comprised of coatings and penetrants, pipe thread sealants, firestopping sealants and caulks and adhesives/solvent cements, which are primarily manufactured internally. We are dedicated to adding value to our customers through focused industry application expertise, diverse industrial coatings technologies, manufacturing excellence and quick response services.

Product Types

- high performance coatings designed to increase the reliability, performance and lifespan of industrial equipment
- engineered specialty thread sealants designed to seal and secure metal
- specialty sealants for high temperature applications
- solvent cements and fire stop caulks

Brand Names

- Bio Fireshield™
- Deacon®
- KATS® Coatings
- Metacaulk®
- Railplex®
- RectorSeal No. 5®
- Stratholiner™
- T Plus 2®
- Tru-Blu™

New Product Development – We generate new ideas for products or enhancements to existing products through our strong customer and industry knowledge and focus on delivering value to our customers. We develop new and modified products and services that improve the performance of our products, the application of our products, or make it easier for our customers to operate more efficiently. We also actively monitor the competitive landscape through a variety of methods. New products are developed and existing products are modified in our R&D labs in Syracuse, New York; Houston, Texas; and Rockwall, Texas.

Competition – The competitive environment for products in our Coatings, Sealants & Adhesives segment is varied. For coatings, competitors include the industrial paint divisions of Sherwin Williams, PPG Industries, Valspar Corporation and Akzo Nobel, as well as other coatings companies such as Carboline, Hempel, Jotun and smaller regional coatings producers. Competitors of our sealants and adhesives products include Dow Corning Corporation, Henkel, 3M Company, Specified Technologies Inc and Hilti. We compete primarily on the basis of product differentiation, superior performance, quality and customer-centric service.

Customers – For coatings, we primarily serve OEMs and end users in rail, energy, general industrial, power generation and marine markets through our direct sales force and internationally through a distribution network. Customers include rail car and locomotive manufacturers, petrochemical facilities, industrial manufacturers, construction, utilities and plant maintenance customers. We serve sealants and adhesives customers primarily through our distribution network.

Specialty Chemicals

Our Specialty Chemicals segment manufactures and supplies highly specialized consumables that impart or enhance properties such as lubricity, anti-seize qualities, friction and heat control. These materials are typically used in harsh operating conditions, including extreme heat and pressure and chemical exposure, where commodity lubrication products would fail. These products protect and extend the working life of large capital equipment such as cranes, rail systems, mining equipment, oil rigs and rotating and grinding equipment found in various industrial segments such as steel mills, canning and bottling, milling and cement. Additionally, our Specialty Chemicals segment manufactures and supplies specialty products used in the HVAC and refrigeration market. These products enhance, repair or condition the internal working systems of both industrial and residential systems and are critical to ensuring safe, efficient and effective long-term operational integrity. The Specialty Chemicals segment also supplies products and services into the water well treatment space, which includes testing services and diagnosis of current conditions, coupled with consumable solutions to resolve any problems that have been defined.

Product Types

- railroad track lubricants, conditioners and positive friction consumables
- oil field anti-seize products for drilling and conveyance piping
- open gear specialty lubricants for heavy equipment
- specialty lubricants for various industrial applications
- water well treatment products and services
- chemical sealants to stop air-conditioning refrigerant leaks

Brand Names

- AC Leak Freeze®
- BioRail®
- Decathlon™
- Envirolube®
- Gearmate®
- KOPR-KOTE®
- Medallion™
- Paragon™
- Rail Armor®
- Run-N-Seal®
- Sterilene™
- Surtac®
- TOR Armor®
- Unicid™
- Well-Guard®
- Whitcam®

New Product Development – We develop relationships with end-users and channel partners to understand existing and new operating conditions where technical innovation or enhancement is needed. For example, these relationships have generated innovation in the areas of modifying existing lubrication products to operate in arctic conditions or modifying an existing product for use in an application where salt water may be present. The development teams located in Rockwall, Texas and Houston, Texas are also actively defining new end markets for product use and penetration.

Competition – As our products are specialty, rather than commodity, competitors tend to be varied and include global, regional and local companies that may be large or small. The product sales cycle is long when compared to many consumables, resulting in verifiable and repeatable product performance being the key driver of choice, rather than price. As these products protect and enhance the operation of large capital equipment, qualification is based on the proof of value in application, resulting in a high changeover risk barrier. Typical competitors include Shell, Castrol, Fuchs and Exxon-Mobil.

Customers – Specialty Chemicals products are primarily sold through value-added distribution partners, as well as maintenance and repair operations or catalog channels. Specialty Chemicals provides both market-specific and product line-specific training to both the distribution partners and potential end users. Our specialists often visit end users with our distribution partners to advise on critical application issues, which enhances our ability to both “pull” demand from the end-user and “push” demand to the distributor partner.

ITEM 1A: RISK FACTORS

Consider carefully the following risk factors, which we believe are the principal risks that we face and of which we are currently aware, and the other information in this Annual Report, including our consolidated financial statements and related notes to those financial statements. If any of the risks described below occur, our business, financial results, financial condition and stock price could be materially adversely affected. While we believe the risks disclosed below are the principal risks we face and of which we are currently aware, additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations.

Risks Relating to Our Business and Industry

The industries in which we operate are highly competitive, and many of our products are in highly competitive markets, particularly certain specialty chemicals products. We may lose market share to producers of other products that can be substituted for our products.

The industries in which we operate are highly competitive, and we face significant competition from both large international producers and from smaller regional competitors. Our competitors may improve their competitive position in our core markets by successfully introducing new products, improving their manufacturing processes or expanding their capacity or manufacturing facilities. Further, some of our competitors benefit from advantageous cost positions that could make it increasingly difficult for us to compete in markets for less-differentiated applications. If we are unable to keep pace with our competitors’ product and manufacturing process innovations or cost position, our financial condition and results of operations could be materially adversely affected.

In addition, competition among producers of certain specialty chemicals products is intense. Increased competition from existing or newly-developed chemical products may reduce demand for our products in the future, and our customers may decide on alternate sources to meet their requirements. If we are unable to successfully compete with other producers or if other products can be successfully substituted for our products, our sales may decline.

Challenging and volatile conditions in the overall economy, particularly in the U.S. but also globally, and in the capital, credit and commodities markets could materially adversely affect our financial position, results of operations and cash flows.

Our financial position, results of operations and cash flows could be materially adversely affected by difficult global economic conditions and significant volatility in the capital, credit and commodities markets and in the overall economy. Challenging and volatile conditions in the U.S. and globally could affect our business in a number of ways. For example:

- weak economic conditions, especially in our key end markets, including the energy industry, could reduce demand for our products, impacting our revenues and margins;
- as a result of volatility in commodity prices, we may encounter difficulty in achieving sustained market acceptance of past or future price increases, which could have a material adverse effect on our financial position, results of operations and cash flows;
- under difficult market conditions, there can be no assurance that access to credit or the capital markets would be available or sufficient, and in such a case, we may not be able to successfully obtain additional financing on reasonable terms, or at all; and
- market conditions could result in our key customers experiencing financial difficulties and/or electing to limit spending, which in turn could result in decreased sales and earnings for us.

Our attempts to address evolving customer needs requires that we continually enhance our products. Our efforts to enhance our products may not be commercially viable and failure to develop commercially successful products or keep pace with our competitors could harm our business and results of operations.

The enhancement and extension of our existing products to broaden the market and uses of our existing products is a key driver of our growth, particularly in our Coatings, Sealants & Adhesives segment. However, developing those product enhancements and extensions can be a costly, lengthy and uncertain process, and it is difficult to predict the commercial success of those products.

A failure to develop commercially successful products or product enhancements or to identify product extensions could materially adversely affect our financial results. If our attempts to develop or enhance products is unsuccessful, we may be unable to recover our development costs, which could have an adverse effect on our business and results of operations. In addition, our inability to enhance or develop products that are able to meet the evolving needs of our customers, including a failure to do so that results in our products lagging those of new or existing competitors, could reduce demand for our products and may have a material adverse effect on our business and results of operations.

The cyclical nature of certain end markets that our business serves can cause significant fluctuations in our results of operations and cash flows.

The cyclical nature of the supply and demand balance of certain end markets that we serve, including the energy and mining industries, poses risks to us that are beyond our control and can affect our operating results. These markets are highly competitive; are driven to a large extent by end-use markets; and may experience overcapacity, all of which may affect demand for and pricing of our products and result in volatile operating results and cash flows over our business cycle. Future growth in product demand may not be sufficient to utilize current or future capacity. Excess industry capacity may continue to depress our volumes and margins on some products. Our operating results, accordingly, may be volatile as a result of excess industry capacity, as well as from rising energy and raw materials costs.

Continued weakness in the energy industry may adversely affect certain segments of our end market customers and reduce our sales and results of operations.

Some of our customers are impacted by the continued weakness in the energy industry. This means our operations and earnings may be significantly affected by changes in oil, gas and petrochemical prices and drilling activities. Oil, gas, petrochemical and product prices and margins in turn depend on local, regional and global events or conditions that affect supply and demand for the relevant commodity.

If we are not able to successfully execute and realize the expected financial benefits from our strategic restructuring and other integration and cost-saving initiatives, our business could be adversely affected.

In August 2016, we announced a strategic manufacturing footprint rationalization initiative in the Coatings, Sealants & Adhesives segment, intended to reduce our cost structure and drive more efficient operations. This initiative involves making

structural changes in our domestic manufacturing footprint through consolidation of product manufacturing, reducing our workforce, and further selling, general and administrative expense reductions. Additionally, we have been in the process of consolidating certain other manufacturing facilities in a broader effort to streamline and rationalize our manufacturing processes as we integrate our operations. As an example, we recently consolidated the production of all lubricant and grease products manufactured in one of our Houston, Texas facilities to our Rockwall, Texas facility in order to optimize capacity and efficiency.

While we expect meaningful financial benefits from our strategic restructuring and other cost-saving initiatives, we may not realize the full benefits that we currently expect within the anticipated time frame. Adverse effects from restructuring activities could interfere with our realization of anticipated synergies, customer service improvements and cost savings from these strategic initiatives. Additionally, our ability to fully realize the benefits and implement the restructuring program may be limited by certain contractual commitments. Moreover, because such expenses are difficult to predict, we may incur substantial expenses in connection with the execution of our restructuring plans in excess of what is currently forecasted. Further, restructuring activities are a complex and time-consuming process that can place substantial demands on management, which could divert attention from other business priorities or disrupt our daily operations. Any of these failures could, in turn, materially adversely affect our business, financial condition, results of operations and cash flows, which could constrain our liquidity.

If these measures are not successful or sustainable, we may undertake additional restructuring and cost reduction efforts, which could result in future charges. Moreover, our ability to achieve our other strategic goals and business plans may be adversely affected, and we could experience business disruptions with customers and elsewhere if our restructuring efforts prove ineffective.

We rely on independent distributors as a channel to market for many of our products. Termination of a substantial number of our distributor relationships or an increase in a distributor's sales of our competitors' products could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We depend on the services of domestic and international independent distributors to sell our products and, in many cases, provide service and aftermarket support to end users of our products, particularly within our Industrial Products and Specialty Chemicals segments. Rather than serving as passive conduits for delivery of products, our distributors play a significant role in determining which of our products are available for purchase by contractors to service our customers. While the use of distributors expands the reach and customer base for our products, the maintenance and administration of distributor relationships is time consuming. Additionally, in certain international jurisdictions, distributors are conferred certain legal rights that could limit our ability to modify or terminate distribution relationships. Many of the distributors with whom we transact business also offer competitors' products and services to our customers. The loss of a substantial number of our distributors, or an increase in the distributors' sales of our competitors' products to our customers, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Growth of our business will depend in part on market awareness of our industrial brands, and any failure to develop, maintain, protect or enhance our industrial brands would hurt our ability to retain or attract customers.

We believe that building and maintaining market awareness, brand recognition and goodwill is critical to our success. This will depend largely on our ability to continue to provide high-quality products, and we may not be able to do so effectively. Our efforts in developing our industrial brands may be affected by the marketing efforts of our competitors and our reliance on our independent dealers, distributors and strategic partners to promote our industrial brands effectively. If we are unable to cost-effectively maintain and increase positive awareness of our industrial brands, our businesses, results of operations and financial condition could be harmed.

We are dependent on contract manufacturers for manufacturing of certain products that we sell.

We use third parties to manufacture certain of our products. To the extent that we rely on third parties to perform these functions, we will not be able to directly control product delivery schedules and quality assurance. This lack of control may result in product shortages or quality assurance problems that could delay shipments of products, increase manufacturing, assembly, testing or other costs or diminish our brand recognition or relationships with our customers. If a contract manufacturer experiences capacity constraints or financial difficulties, suffers damage to its facilities, experiences power outages, natural disasters, labor shortages or labor strikes, or any other disruption of assembly or testing capacity, we may not be able to obtain alternative manufacturing in a timely manner or on commercially acceptable terms.

We may not be able to consummate acquisitions at our historical rate and at appropriate prices, which could negatively impact our growth rate and stock price.

As part of our business strategy, we acquire businesses in the ordinary course, some of which may be material; please see "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report for additional information. Our ability to grow revenues, earnings and cash flow at or above our historic rates depends in part upon our ability to identify, successfully acquire and integrate businesses at accretive valuations and realize anticipated synergies. Our inability to do so could adversely impact our growth rate and our stock price. Our ability to implement

our inorganic growth strategy will be limited by our ability to identify appropriate acquisition candidates, which are difficult to identify for a number of reasons, including high valuations and competition among prospective buyers. Covenants in our credit agreement and our financial resources, including available cash and borrowing capacity, will also limit our ability to consummate acquisitions, which may require additional debt financing, resulting in higher leverage and an increase in interest expense. Changes in accounting or regulatory requirements could also adversely impact our ability to consummate acquisitions.

Our acquisition and integration of businesses could negatively impact our financial results.

Acquiring businesses involves a number of financial, accounting, managerial, operational, legal, compliance and other risks and challenges, including the following, any of which could adversely affect our financial statements:

- any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not achieve cost savings or other synergies in accordance with our anticipated timetable;
- we may incur or assume significant debt in connection with our acquisitions, which would increase our leverage and interest expense, thereby reducing funds available to us for purposes such as working capital, capital expenditures, research and development and other general corporate purposes;
- pre-closing and post-closing earnings charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period;
- the process of integrating acquired operations may create operating difficulties and may require significant financial and managerial resources that would otherwise be available for existing operations;
- we could experience difficulty in integrating financial and other controls and systems;
- we may lose key employees or customers of the acquired company;
- we may assume liabilities that are unknown or for which our indemnification rights are insufficient, or known or contingent liabilities may be greater than anticipated; and
- conforming the acquired company's standards, process, procedures and controls, including accounting systems and controls, with our operations could cause internal control deficiencies related to our internal control over financial reporting or exposure to regulatory sanctions resulting from the acquired company's activities.

Our relationships with our employees could deteriorate, which could adversely affect our operations.

As a manufacturing company, we rely on a positive relationship with our employees to produce our products and maintain our production processes and productivity. As of March 31, 2017, we had approximately 750 full-time employees, of which 27 were subject to collective bargaining agreements. If our workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted, or we could experience higher labor costs. In addition, if significant portions of our employees were to become unionized, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our business, financial condition and results of operations.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success in the highly competitive end markets in which we operate will continue to depend to a significant extent on our key employees, and we are dependent on the expertise of our executive officers and other key employees. Loss of the services of any of these individuals could have an adverse effect on our business. Further, we may not be able to retain or recruit qualified individuals to join our company. The loss of executive officers or other key employees could result in high transition costs and could disrupt our operations.

Chemical processing is inherently hazardous, which could result in accidents that disrupt our operations or expose us to significant losses or liabilities.

Hazards associated with chemical processing and the related storage and transportation of raw materials, products and wastes exist in our operations and the operations of other occupants with whom we share manufacturing sites. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on us as a whole. These potential risks include, but are not necessarily limited to chemical spills and other discharges or releases of toxic or hazardous substances or gases, pipeline and storage tank leaks and ruptures, explosions and fires and mechanical failure. These hazards may result in personal injury and loss of life, damage to property and contamination of the environment, which may result in a suspension of operations and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities or third parties. The loss or shutdown of operations over an extended period at any of our major operating facilities could have a material adverse effect on our financial condition and results of operations. Our property, business interruption and casualty insurance may not fully insure us against all potential hazards incidental to our business.

Regulation of our employees' exposure to certain chemicals or other hazardous products could require material expenditures or changes in our operations.

Certain chemicals that we use in the manufacture of our products may have adverse health effects. The Occupational Safety and Health Administration limits the permissible employee exposure to some of those chemicals. Future studies on the health effects of certain chemicals may result in additional regulations or new regulations in foreign countries that further restrict or prohibit the use of, and exposure to, certain chemicals. Additional regulation of certain chemicals could require us to change our operations, and these changes could affect the quality of our products and materially increase our costs.

Regulatory and statutory changes applicable to us or our customers could adversely affect our financial condition and results of operations.

We and many of our customers are subject to various national, state and local laws, rules and regulations. Changes in any of these areas could result in additional compliance costs, seizures, confiscations, recall or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products.

In addition, we benefit from certain regulations, including building code regulations, which require the use of products that we and other manufacturers sell. For example, certain environmental regulations may encourage the use of more environmentally friendly products, such as some of the lubricants and greases that we manufacture. If these regulations were to change, demand for our products could be reduced and our results of operations could be adversely affected.

Compliance with extensive environmental, health and safety laws could require material expenditures, changes in our operations or site remediation.

Our operations and properties are subject to regulation under environmental laws, which can impose substantial sanctions for violations. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all jurisdictions in which we operate. Certain materials we use in the manufacture of our products can represent potentially significant health and safety concerns. We use large quantities of hazardous substances and generate hazardous wastes in our manufacturing operations. Consequently, our operations are subject to extensive environmental, health and safety laws and regulations at the international, national, state and local level in multiple jurisdictions. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management, site remediation programs and chemical use and management. Many of these laws and regulations have become more stringent over time, and the costs of compliance with these requirements may increase, including costs associated with any necessary capital investments. In addition, our production facilities require operating permits that are subject to renewal and, in some circumstances, revocation. The necessary permits may not be issued or continue in effect, and renewals of any issued permits may contain significant new requirements or restrictions. The nature of the chemical industry exposes us to risks of liability due to the use, production, management, storage, transportation and sale of materials that may be hazardous and can cause contamination or personal injury or damage if released into the environment.

Compliance with environmental laws and regulations generally increases the costs of transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations for violations arising under environmental laws, regulations or permit requirements.

Our permits, licenses, registrations or authorizations and those of our customers or distributors may be modified, suspended, terminated or revoked before their expiration or we and/or they may be unable to renew them upon their expiration. We may bear liability for failure to obtain, maintain or comply with required authorizations.

We are required to obtain and maintain, and may be required to obtain and maintain in the future, various permits, licenses, registrations and authorizations for the ownership or operation of our business, including the manufacturing, distribution, sale and marketing of our products and importing of raw materials. These permits, licenses, registrations and authorizations could be modified, suspended, terminated or revoked or we may be unable to renew them upon their expiration for various reasons, including for non-compliance. These permits, licenses, registrations and authorizations can be difficult, costly and time consuming to obtain and could contain conditions that limit our operations. Our failure to obtain, maintain and comply with necessary permits, licenses, registrations or authorizations for the conduct of our business could result in fines or penalties, which may be significant. Additionally, any such failure could restrict or otherwise prohibit certain aspects of our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Many of our customers and distributors require similar permits, licenses, registrations and authorizations to operate. If a significant customer, distributor or group thereof were to have an important permit, license, registration or authorization revoked or such permit, license, registration or authorization was not renewed, forcing them to cease or reduce their business, our sales could decrease, which would have a material adverse effect on our business, financial condition and results of operations.

Failure to design, implement and maintain effective internal controls could have a material adverse effect on our business and stock price.

After becoming a public company in 2015, we assumed significant requirements for enhanced financial reporting and internal controls. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. If we are unable to design, implement or maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations on a timely basis, result in material misstatements in our financial statements and harm our operating results. In addition, we will be required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting.

This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our auditors have issued an attestation report on effectiveness of our internal controls. Testing and maintaining internal controls may divert our management's attention from other matters that are important to our business. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting or our independent registered public accounting firm may not issue a favorable assessment. If we are unable to conclude that we have effective internal control over financial reporting or our independent registered public accounting firm is unable to provide us with an unqualified report, investors could lose confidence in our reported financial information, which could have a material adverse effect on the trading price of our stock.

Our insurance policies may not cover, or fully cover, us against natural disasters, global conflicts or environmental risk.

We currently have insurance policies for certain operating risks, which include certain property damage, including certain aspects of business interruption for certain sites, operational and product liability, transit, directors' and officers' liability, industrial accident insurance and other risks customary in the industries in which we operate. However, we may become subject to liability (including in relation to pollution, occupational illnesses, injury resulting from tampering, product contamination or degeneration or other hazards) against which we have not insured or cannot fully insure.

For example, hurricanes may affect our facilities or the failure of our information systems as a result of breakdown, malicious attacks, unauthorized access, viruses or other factors could severely impair several aspects of operations, including, but not limited to, logistics, sales, customer service and administration. In addition, in the event that a product liability or third-party liability claim is brought against us, we may be required to recall our products in certain jurisdictions if they fail to meet relevant quality or safety standards, and we cannot guarantee that we will be successful in making an insurance claim under our policies or that the claimed proceeds will be sufficient to compensate the actual damages suffered.

Should we suffer a major uninsured loss, a product liability judgment against us or a product recall, future earnings could be materially adversely affected. We could be required to increase our debt or divert resources from other investments in our business to discharge product related claims. In addition, adverse publicity in relation to our products could have a significant effect on future sales, and insurance may not continue to be available at economically acceptable premiums. As a result, our insurance coverage may not cover the full scope and extent of claims against us or losses that we incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability and business interruption.

Our business relies heavily on trademarks, trade secrets, other intellectual property and proprietary information, and our failure or inability to protect our rights could harm our competitive position with respect to the manufacturing and sale of some of our products.

Our ability to protect and preserve our trademarks, trade secrets and other intellectual property and proprietary information relating to our business is an important factor to our success. However, we may be unable to prevent third parties from using our intellectual property and other proprietary information without our authorization or from independently developing intellectual property and other proprietary information that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights to the same degree as in the U.S. In addition, because certain of our products are manufactured by third parties, we have shared some of our intellectual property with those third parties. There can be no guarantee that those third parties, some of whom are located in jurisdictions where intellectual property risks may be more pronounced, will comply with contractual commitments to preserve and protect our intellectual property.

The use of our intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage we have developed, potentially causing us to lose sales or otherwise harm our business. If it becomes necessary for us to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

Our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. Moreover, our competitors may already hold or in the future may hold intellectual property rights in the U.S. or abroad that, if

enforced or issued, could possibly prevail over our rights or otherwise limit our ability to manufacture or sell one or more of our products in the U.S. or internationally.

Adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. The loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. In addition, others may obtain knowledge of our trade secrets through independent development or other access by legal means.

The failure to protect our intellectual property and other proprietary information, including our processes, apparatuses, technology, trade secrets, trade names and proprietary manufacturing expertise, methods and compounds, could have a material adverse effect on our businesses and results of operations.

Security breaches and other disruptions to our information technology systems could compromise our information, disrupt our operations, and expose us to liability, which may adversely impact our operations.

In the ordinary course of our business, we store sensitive data, including our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our employees in our information technology systems, including in our data centers and on our networks. The secure processing, maintenance and transmission of this data is critical to our operations. Despite our security measures, our information technology systems may be vulnerable to attacks by hackers or breached or disrupted due to employee error, malfeasance or other disruptions. Any such attack, breach or disruption could compromise our information technology systems and the information stored in them could be accessed, publicly disclosed, lost or stolen and our business operations could be disrupted. Additionally, any significant disruption or slowdown of our systems could cause customers to cancel orders or cause standard business processes to become inefficient or ineffective, which could adversely affect our financial position, results of operations or cash flows. Any such access, disclosure or other loss of information or business disruption could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and damage to our reputation, which could adversely impact our operations.

We are subject to the U.S. Foreign Corrupt Practices Act and other anti-corruption laws, as well as other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures, and legal expenses, which could adversely affect our business, financial condition and results of operations.

Our operations are subject to anti-corruption laws, including the U.S. Foreign Corrupt Practices Act (“FCPA”), and other anti-corruption laws that apply in countries where we do business. The FCPA and these other laws generally prohibit us and our employees and intermediaries from bribing, being bribed or making other prohibited payments to government officials or other persons to obtain or retain business or gain some other business advantage. We conduct business in a number of jurisdictions that pose a high risk of potential FCPA violations, and we participate in relationships with third parties whose actions could potentially subject us to liability under the FCPA or other anti-corruption laws. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

We are also subject to other laws and regulations governing our international operations, including regulations administered by the U.S. Department of Commerce’s Bureau of Industry and Security, the U.S. Department of Treasury’s Office of Foreign Asset Control and various non-U.S. government entities, including applicable export control regulations, economic sanctions on countries and persons, customs requirements, currency exchange regulations and transfer pricing regulations (collectively, the “Trade Control Laws”).

However, despite our compliance programs, there is no assurance that we will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the FCPA or other legal requirements, or Trade Control Laws. If we are not in compliance with the FCPA and other anti-corruption laws or Trade Control Laws, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses, which could have an adverse impact on our business, financial condition, results of operations and liquidity.

Likewise, any investigation of any potential violations of the FCPA, other anti-corruption laws or Trade Control Laws by the U.S. or foreign authorities could also have an adverse impact on our reputation, business, financial condition and results of operations.

Our outstanding indebtedness and the restrictive covenants in the agreements governing our indebtedness limit our operating and financial flexibility.

We are required to make scheduled repayments and, under certain events of default, mandatory repayments on our outstanding indebtedness, which may require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, R&D efforts and

other general corporate purposes, and could generally limit our flexibility in planning for, or reacting to, changes in our business and industry.

In addition, the agreements governing our indebtedness impose certain operating and financial restrictions on us and somewhat limit management's discretion in operating our businesses. These agreements limit or restrict our ability, among other things, to: incur additional debt; pay dividends and make other distributions; make investments and other restricted payments; create liens; sell assets; and enter into transactions with affiliates.

We are also required to comply with leverage and interest coverage financial covenants and deliver to our lenders audited annual and unaudited quarterly financial statements. Our ability to comply with these covenants may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default which, if not cured or waived, may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may acquire various structured financial instruments for purposes of hedging or reducing our risks, which may be costly and ineffective.

We may seek to hedge against commodity price fluctuations and credit risk by using structured financial instruments such as futures, options, swaps and forward contracts. Use of structured financial instruments for hedging purposes may present significant risks, including the risk of loss of the amounts invested. Defaults by the other party to a hedging transaction can result in losses in the hedging transaction. Hedging activities also involve the risk of an imperfect correlation between the hedging instrument and the asset being hedged, which could result in losses both on the hedging transaction and on the instrument being hedged. Use of hedging activities may not prevent significant losses and could increase our losses.

Fluctuations in currency exchange rates may significantly impact our results of operations and may significantly affect the comparability of our results between financial periods.

Our operations are conducted in many countries. The results of the operations and the financial position of these subsidiaries are reported in the relevant foreign currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The main currencies to which we are exposed, besides the U.S. dollar, are primarily the Canadian dollar, the British pound and the Australian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from these operations reported in our consolidated financial statements, and an appreciation of these currencies will result in a corresponding increase in such amounts. Because many of our raw material costs are determined with respect to the U.S. dollar rather than these currencies, depreciation of these currencies may have an adverse effect on our profit margins or our reported results of operations. Conversely, to the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our results of operations. In addition, currency fluctuations may affect the comparability of our results of operations between financial periods.

We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. Given the volatility of exchange rates, there can be no assurance that we will be able to effectively manage our currency transaction risks, that our hedging activities will be effective or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations.

Risks Relating to our Separation from Capital Southwest

The historical combined financial information included in this Annual Report is not necessarily representative of the results we would have achieved as a standalone, publicly traded company and may not be a reliable indicator of our future results.

The Company began operating as a standalone, publicly traded Company on October 1, 2015. The historical combined financial information included in this Annual Report for periods prior to October 1, 2015 reflects historical financial information of our wholly-owned subsidiaries and does not necessarily reflect the financial condition, results of operations or cash flows we would have achieved as a standalone, publicly traded company during the periods presented or that we may achieve in the future. For example, historical combined financial information reflects allocations of expenses for services historically provided by Capital Southwest, and those allocations may be different than the comparable expenses we would have incurred as a standalone company. Additionally, the historical combined financial information does not reflect the changes that have and will occur in our cost structure, management, financing arrangements and business operations related to being an independent, publicly traded company, as well as other changes as we transition to an integrated industrial manufacturing company.

We may not be able to successfully integrate our operations in a timely manner.

Prior to the Share Distribution, our operating companies functioned independently. We are in process of integrating the separate businesses, technologies, organizations, procedures, policies and operations of our subsidiaries into an integrated industrial manufacturing company, which is necessary to fully realize the expected results of the Share Distribution. The integration process

may prove to be more complex and time-consuming and require substantially more resources and effort than currently anticipated, which could have a material adverse effect on us and our operations, relationships with market participants, employees, regulators and others.

The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

As a public company with listed equity securities, we are required to comply with laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act, related regulations of the SEC, including compliance with the reporting requirements of the Exchange Act and the requirements of the NASDAQ Marketplace Rules not applicable to private companies. Complying with these statutes, regulations and requirements is expected to occupy a significant amount of time of our Board and management and is expected to significantly increase our administrative costs and expenses, which could adversely affect our profitability.

We may be unable to achieve some or all of the benefits that we expect to achieve as an independent, publicly traded company.

As a standalone, publicly traded company, we believe that our business will benefit from, among other things, more focused management and an enhanced ability to pursue our business strategy, which we expect as a result of the Share Distribution. However, we may be more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Capital Southwest. In addition, we may not be able to achieve some or all of the benefits that we expect to achieve as a standalone company in the time we expect, if at all.

Potential indemnification obligations pursuant to agreements related to the Share Distribution could materially adversely affect us.

Agreements between Capital Southwest and us provide for, among other things, the principal corporate transactions required to effect the separation, the conditions to the Share Distribution and provisions governing the relationship between Capital Southwest and us with respect to and resulting from the Share Distribution.

Among other things, we have indemnification obligations designed to make us financially responsible for liabilities that may exist relating to or arising out of our business activities, whether incurred prior to or after the Share Distribution. In addition, after the Share Distribution, there are several significant areas where the liabilities of Capital Southwest became our obligations, including Capital Southwest defined benefit obligations. If we are required to indemnify Capital Southwest under the circumstances set forth in such agreements, we may be subject to substantial liabilities that could adversely affect our financial condition.

If the Share Distribution were to fail to qualify as a tax-free transaction for U.S. federal income tax purposes, then we and our stockholders could incur significant U.S. federal income tax liabilities.

In connection with the Share Distribution, Capital Southwest received an opinion from a nationally recognized accounting firm substantially to the effect that the Share Distribution should qualify as tax free under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code (“the Code”), except with respect to any cash received in lieu of fractional shares of CSWI common stock. An opinion of an accounting firm is not binding on the Internal Revenue Service (“IRS”). Accordingly, the IRS may reach conclusions with respect to the Share Distribution that are different from the conclusions reached in the opinion. The opinion relied on certain facts, assumptions, representations and undertakings from Capital Southwest and us regarding the past and future conduct of the companies’ respective businesses and other matters, which, if incomplete, incorrect or not satisfied, could alter that accounting firm’s conclusions.

If the Share Distribution ultimately is determined to be taxable, it could expose Capital Southwest and its shareholders to significant U.S. federal income tax liabilities. We have agreed not to enter into any transaction that could cause any portion of the Share Distribution to be taxable to Capital Southwest, including under Section 355 of the Code. Pursuant to the Tax Matters Agreement, we have also agreed to indemnify Capital Southwest for any tax liabilities resulting from such transactions, and Capital Southwest has agreed to indemnify us for any tax liabilities resulting from such transactions entered into by them. These obligations may discourage, delay or prevent a change of control of our Company

Our ability to engage in certain corporate transactions is limited in the near term.

Our ability to engage in significant equity transactions has been restricted in order to preserve the tax-free status of the Share Distribution to Capital Southwest for U.S. federal income purposes, and we expect this restriction will continue through October 2017. Even if the Share Distribution otherwise qualifies for tax-free treatment to Capital Southwest’s shareholders under the Code, it may be taxable to Capital Southwest if 50% or more, by vote or value, of the shares of our common stock or Capital Southwest’s common stock are acquired or issued as part of a plan or series of related transactions that includes the Share Distribution. For this purpose, any acquisitions or issuances of Capital Southwest’s common stock within two years before the Share Distribution,

and any acquisitions or issuances of our common stock or Capital Southwest's common stock within two years after the Share Distribution, generally are presumed to be part of such a plan, although we or Capital Southwest may be able to rebut that presumption. If an acquisition or issuance of shares of our common stock or Capital Southwest's common stock triggers the application of the Code, Capital Southwest would recognize a taxable gain as a result of the Share Distribution to the extent the fair market value of our common stock exceeds Capital Southwest's tax basis in our common stock at the time of the Share Distribution.

Under a Tax Matters Agreement that was entered into by Capital Southwest and us, there are restrictions on our ability to take actions that could cause the Share Distribution to fail to qualify for favorable treatment under the Code, and we will be required to indemnify Capital Southwest against any tax liabilities arising as a result of the Share Distribution that are attributable to any actions taken by us or with respect to us or any of our affiliates. As a result, we may be limited or restricted from entering into strategic, capital raising or other transactions which might be advantageous to us or our stockholders.

In connection with our separation from Capital Southwest, Capital Southwest will indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities or that Capital Southwest's ability to satisfy its indemnification obligation will not be impaired in the future.

Following the Share Distribution, Capital Southwest has agreed to indemnify us for certain liabilities, including certain tax liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Capital Southwest will agree to retain, and there can be no assurance that Capital Southwest will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Capital Southwest any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from Capital Southwest.

Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect the current views of our senior management with respect to future events and our financial performance. These statements include forward-looking statements with respect to our business and industry in general. Statements that include the words "may," "expects," "plans," "anticipates," "estimates," "believes," "potential," "projects," "forecasts," "intends," or the negative thereof or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

Forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

- our business strategy;
- future levels of revenues, operating margins, income from operations, net income or earnings per share;
- anticipated levels of demand for our products and services;
- future levels of research and development, capital, environmental or maintenance expenditures;
- our beliefs regarding the timing and effects on our business of health and safety, tax, environmental or other legislation, rules and regulations;
- the success or timing of completion of ongoing or anticipated capital, restructuring or maintenance projects;
- expectations regarding the acquisition or divestiture of assets and businesses;
- our ability to obtain appropriate insurance and indemnities;
- the potential effects of judicial or other proceedings, including tax audits, on our business, financial condition, results of operations and cash flows;
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation;
- the expected impact of accounting pronouncements;
- the expected benefits of being a standalone publicly-traded company; and
- the other factors listed above under "Risk Factors."

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. The foregoing factors should not be construed as exhaustive. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Any forward-looking statements you read in this Annual Report reflect our views as of the date of this Annual Report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. You should not place undue reliance on these forward-looking statements and you should carefully

consider all of the factors identified in this Annual Report that could cause actual results to differ. We assume no obligation to update these forward looking statements, except as required by law.

ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Properties

Our principal executive offices are located at 5420 Lyndon B. Johnson Freeway, Suite 500, Dallas, Texas 75240. Our headquarters is a leased facility, which we began to occupy on March 7, 2016. The lease term expires August 31, 2026.

We consider the many offices, manufacturing and research and development facilities, warehouses, and other properties that we own or lease to be in good condition and generally suitable for the purposes for which they are used. The following table presents our principal manufacturing locations by segment.

| Location | Use | Segment | Square Footage | Owned/Leased |
|---------------------------|--|--------------------------------|----------------|--------------|
| Acworth, Georgia | Manufacturing | Coatings, Sealants & Adhesives | 25,000 | Owned |
| Boise, Idaho | Manufacturing, Office and R&D | Industrial Products | 40,800 | Leased |
| Fall River, Massachusetts | Manufacturing | All | 140,200 | Leased |
| Houston, Texas | Manufacturing and Office | All | 253,900 | Owned |
| Longview, Texas | Manufacturing | Coatings, Sealants & Adhesives | 53,200 | Owned |
| Oklahoma City, Oklahoma | Manufacturing | Industrial Products | 30,600 | Owned |
| Rockwall, Texas | Manufacturing, Office, R&D and Warehouse | All | 227,600 | Owned |
| Wichita, Kansas | Manufacturing | Industrial Products | 42,800 | Owned |
| Windsor, Ontario, Canada | Manufacturing, Office and R&D | Industrial Products | 42,000 | Leased |

We believe that our facilities are adequate for our current operations. We may endeavor to selectively reduce or expand our existing lease commitments as circumstances warrant. See Note 7 to our consolidated financial statements included in Item 8 of this Annual Report for additional information regarding our operating lease obligations.

ITEM 3: LEGAL PROCEEDINGS

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our operating companies. We are not currently a party to any legal proceedings that, individually or in the aggregate, are expected to have a material effect on our business, financial condition, results of operations or financial statements, taken as a whole.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common shares began “when issued” trading on the Nasdaq Global Select Market on September 16, 2015. “Regular way” trading on the Nasdaq Global Select Market began on October 1, 2015. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock, as reported by Nasdaq:

| | High | Low |
|--|----------|----------|
| <u>Fiscal year ended March 31, 2016:</u> | | |
| Second quarter (September 16, 2015 – September 30, 2015) | \$ 38.00 | \$ 23.20 |
| Third quarter (October 1, 2015 – December 31, 2015) | \$ 39.96 | \$ 30.25 |
| Fourth quarter (January 1, 2016 – March 31, 2016) | \$ 37.75 | \$ 27.84 |
| <u>Fiscal year ended March 31, 2017:</u> | | |
| First quarter (April 1, 2016 – June 30, 2016) | \$ 35.96 | \$ 30.03 |
| Second quarter (July 1, 2016 – September 30, 2016) | \$ 34.86 | \$ 30.76 |
| Third quarter (October 1, 2016 – December 31, 2016) | \$ 39.25 | \$ 29.25 |
| Fourth quarter (January 1, 2017 – March 31, 2017) | \$ 41.85 | \$ 34.59 |

Holders

As of June 6, 2017, there were approximately 475 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Dividend Policy

Any payment of dividends will be at the discretion of our Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, any contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that our Board of Directors may deem relevant. We do not currently expect to pay dividends on our common stock for the foreseeable future.

Issuer Purchases of Equity Securities

Note 9 to our consolidated financial statements included in Item 8 of this Annual Report includes a discussion of our share repurchase program. Through March 31, 2017, no shares have been repurchased under this program.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (a) |
|-----------------|--|---------------------------------|---|--|
| | | | | (in millions) |
| January 1 - 31 | 206 (b) | \$ 37.10 | — | \$ 35.0 |
| February 1 - 28 | 573 (b) | 37.10 | — | 35.0 |
| March 1 - 31 | 280 (b) | 36.27 | — | 35.0 |
| | <u>1,059</u> | | <u>—</u> | |

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

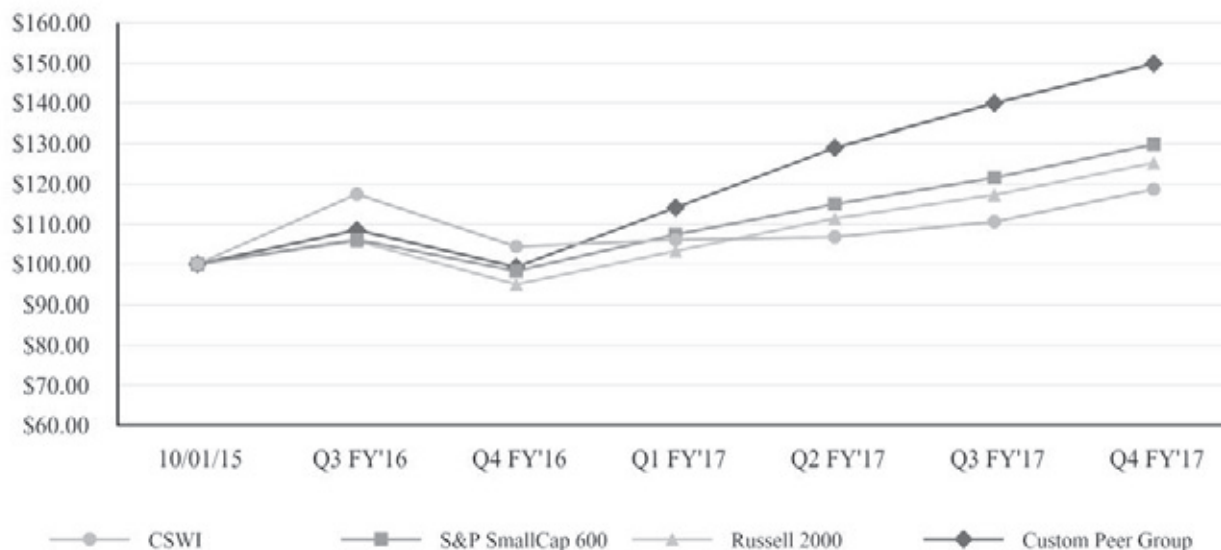
(b) Represents shares tendered by employees to satisfy minimum tax withholding amounts for restricted share vesting.

Stock Performance Chart

The following graph compares the cumulative total shareholder return on our common stock from October 1, 2015 through March 31, 2017 compared with the Standard & Poor's ("S&P") Small Cap 600 Index, the Russell 2000 Index and a composite custom peer group, selected on an industry basis. During the fiscal year ended March 31, 2017, CSWI was added to the Russell 2000 index. CSWI was not included in any indices during the fiscal year ended March 31, 2016. In the future, we will discontinue presentation of S&P Small Cap 600 Index. The graph assumes that \$100 was invested at the market close on October 1, 2015 and that all dividends were reinvested. The stock price performance of the following graph is not necessarily indicative of future stock price performance. The custom peer group consists of the following:

| | | | |
|-------------------------|-----------------------------|---------------------------|------------------|
| Astec Industries | Futurefuel Corp. | Landec Corp | Omnova Solutions |
| Chase Corp. | Gorman-Rupp Company | Littelfuse, Inc. | Orbotech Ltd. |
| Columbus McKinnon Corp | Innospec Inc. | LSB Industries | Quaker Chemical |
| CTS Corp. | Koppers Holdings | Methode Electronics, Inc. | Tredegar Corp. |
| Flotek Industries, Inc. | Kraton Performance Polymers | NN, Inc. | WD-40 Company |

This graph is furnished and not filed with the SEC. Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933 or the Exchange Act that incorporate future filings made by us under those statutes, the stock performance graph below is not to be incorporated by reference in any prior filings, nor shall it be incorporated by reference into any future filings made by us under those statutes.



ITEM 6: SELECTED FINANCIAL DATA

| (Amounts in thousands, except per share data) | Fiscal Years Ended March 31, | | | | |
|---|------------------------------|------------|------------|------------|------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| RESULTS OF OPERATIONS | (a) | (b) (c) | (c) | (c) | (c) |
| Revenues, net | \$ 327,084 | \$ 319,831 | \$ 261,834 | \$ 231,713 | \$ 199,094 |
| Gross profit | 133,837 | 147,864 | 126,425 | 112,086 | 94,582 |
| Operating expenses | (111,356) | (100,378) | (82,391) | (74,173) | (62,335) |
| Operating income | 22,481 | 47,486 | 44,034 | 37,913 | 32,247 |
| Interest income (expense), net | (2,695) | (3,035) | (611) | (131) | 74 |
| Provision for income taxes | (10,473) | (18,754) | (15,223) | (12,794) | (10,707) |
| Net income | 11,071 | 25,471 | 29,705 | 24,732 | 22,513 |
| Net income per diluted share | 0.70 | 1.62 | 1.90 | 1.58 | 1.44 |
| FINANCIAL CONDITION | | | | | |
| Working capital | \$ 108,547 | \$ 123,958 | \$ 93,774 | \$ 90,884 | \$ 77,196 |
| Total assets | 397,664 | 392,260 | 286,521 | 277,820 | 236,521 |
| Total debt | 73,207 | 89,682 | 26,704 | 45,097 | 23,348 |
| Retirement obligations and other liabilities | 14,844 | 13,566 | 30,255 | 12,233 | 12,070 |
| Total equity | 272,438 | 258,010 | 204,601 | 196,186 | 176,522 |

- (a) Results of operations in the fiscal year ended March 31, 2017 included costs of \$12.8 million resulting from restructuring and realignment initiatives, resulting in a reduction of after tax net earnings of \$6.6 million.
- (b) Results of operations in the fiscal year ended March 31, 2016 included costs of \$8.0 million resulting from restructuring and realignment initiatives, resulting in a reduction of after tax net earnings of \$5.2 million.
- (c) We began operations on September 30, 2015 as a result of the Share Distribution discussed in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. The financial position, results of operations and cash flows for periods prior to September 30, 2015 represent the combined financial information of our wholly-owned subsidiaries contributed to us as a result of the Share Distribution. The financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had our wholly-owned subsidiaries been operating as separate publicly-traded (“standalone”) companies during those periods and may not reflect the consolidated results of operations, financial position, and cash flows as a standalone company during all periods presented.

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

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the accompanying consolidated financial statements and notes. See "Item 1A. Risk Factors" and the "Forward-Looking Statements" included in this Annual Report on Form 10-K for the year ended March 31, 2017 ("Annual Report") for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated.

EXECUTIVE OVERVIEW

The Share Distribution

On September 30, 2015, Capital Southwest Corporation ("Capital Southwest") spun-off certain of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses by means of a distribution of the outstanding shares of common stock of CSWI on a pro rata basis to holders of Capital Southwest common stock (the "Share Distribution"). CSWI became an independent, publicly traded company at the time of the Share Distribution.

Our Company

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants and Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. CSWI delivers products and systems that help contractors do their jobs better, faster and easier; make buildings safer and more aesthetically pleasing; protect valuable assets from corrosion; and improve the reliability of mission critical equipment. Our products include mechanical products for heating, ventilation and air conditioning ("HVAC") and refrigeration applications, coatings and sealants and high performance specialty lubricants. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and other general industrial markets. Our operations are concentrated in the U.S., and we have operations in Australia, Canada and the United Kingdom. Our products are also sold directly or through designated channels both domestically and internationally.

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

Prior to the Share Distribution, our operating companies operated as separate businesses. The consolidated financial statements included in this Annual Report include all revenues, costs, assets and liabilities directly attributable to the businesses discussed above. However, the combined financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had the businesses been operating as separate publicly traded ("standalone") companies during those periods. We expect to incur capital costs in the next few years to further integrate our operations, including the further consolidation of some of our manufacturing facilities and operational improvement initiatives. As a result of these efforts, we expect to generate sales synergies through greater cross-selling opportunities and expansion of product line applications and generate cost synergies through operating more efficiently and effectively. We also expect to incur additional costs as a result of being a public company, such as additional employee-related costs, costs to build out certain standalone corporate functions, information systems costs and other organizational-related costs.

We believe that our broad portfolio of products and markets served and our brand recognition will continue to provide opportunities; however, we face ongoing challenges affecting many companies, such as environmental and other regulatory compliance and overall global economic uncertainty. During the year ended March 31, 2017, we experienced headwinds caused by spending declines at many of our customers in the energy, mining and rail end markets as they adjusted to weakened demand in response to lower market prices for crude oil, gas, coal and other natural resources. These headwinds also indirectly impacted general industrial end markets that we serve. We expect that the current energy environment will persist into the next fiscal year. We continued to experience strong sales growth in other key end markets such as HVAC, where our innovative chemical and mechanical products have increased market penetration, and architecturally specified building products, where our innovative smoke curtain products have increased market penetration and where we are currently benefiting from a robust commercial construction cycle.

Our Markets

The following discussion should be read in conjunction with the "Outlook for Fiscal Year 2018" section included below.

HVAC

The HVAC market is our largest market served and it represented approximately 27% and 24% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We provide an extensive array of products for repair and maintenance of HVAC systems that includes our largest product family, consisting of condensate switches, as well as condensate pans, air diffusers, condensate pumps, refrigerant caps, line set covers and other chemical and mechanical products. The industry is driven by new construction projects, as well as replacement and repair of existing HVAC systems. New HVAC systems are heavily influenced by macro trends in building construction. The HVAC market tends to be seasonal with the peak sales season beginning in March and continuing through August. Construction and repair is typically performed by contractors, and we utilize our global distribution network to drive sales of our brands to such contractors. For the fiscal year ending March 31, 2018, we anticipate growth in the HVAC market to be stronger than the gross domestic product, but lower than recent historical growth due to the installation of new HVAC units in the U.S. growing at a slower rate than prior years.

Architecturally-Specified Building Products

Architecturally-specified building products represented approximately 22% and 18% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We manufacture and sell products such as expansion joints, stair nosings, engineered railings and smoke and fire protection systems for large commercial buildings and parking garages. Sales of these products are driven by architectural specifications and safety codes, and the sales process is typically long as these are multi-year construction projects. International expansion is driving revenues in this end market as larger buildings are being designed and built, as well as refurbished and retrofitted. The construction market is a key driver for sales of architecturally-specified building products plus recent acquisitions and our outlook for growth in new construction is stronger than the gross domestic product in the fiscal year ending March 31, 2018.

Industrial

The industrial end market represented approximately 20% and 20% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. The industrial end market includes customers who manufacture chemicals, steel equipment and a wide variety of materials. We include sales of industrial coatings, lubricants and breathers, as well as various other industrial products in the industrial end market. We serve this market primarily through a network of industrial distributors. We expect our sales into this market in the fiscal year ending March 31, 2018 to grow slightly higher than the gross domestic product due to our innovative technologies.

Rail

The rail market represented approximately 10% and 17% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We provide an array of products into the rail industry, including lubricants and lubricating devices for rail lines, which increase efficiency and reduce noise for and extend the life of rail cars, and coating of tank cars and locomotives. We leverage our technical expertise to build relationships with key decision-makers to ensure that our products meet required specifications. The rail industry is driven by the transportation of natural resources, including coal and petrochemical products, and has experienced slowdowns as a result of declines in the mining and energy markets, which in turn, has resulted in a reduction in rail miles traveled and reduced production of new tank cars. For the fiscal year ending March 31, 2018, we anticipate ongoing challenges in the rail industry as it continues to be impacted by the mining and energy markets and due to the increased use of natural gas, which is transported by pipeline, for domestic power generation, and we will continue to evaluate alternative markets to drive sales diversification.

Plumbing

The plumbing market represented approximately 10% and 9% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We provide many products to the plumbing industry including thread sealants, solvent cements, fire-stopping products, condensate switches and trapguards, as well as other mechanical products. Installation is typically performed by contractors, and we utilize our global distribution network to drive sales of our brands to contractors. We are not anticipating any significant changes in the overall plumbing market in the fiscal year ending March 31, 2018.

Energy

The energy market represented approximately 6% and 7% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We provide market-leading lubricants and anti-seize compounds, as well as greases, for use in maintenance of oilfield drilling equipment. We also provide coatings to the energy industry for storage tanks, drum containers and general refinery maintenance. The outlook for the energy industry is heavily dependent on the demand growth from both mature markets and developing geographies. We believe increased crude oil supply resulted in the significant decline in the price of oil beginning in the fourth quarter of 2014, and we believe that fluctuating oil prices could continue to negatively impact upstream energy

investment most acutely, and impact mid-stream and downstream investment to a lesser extent. We do not expect significant improvement in the demand for our products used in oil and gas drilling applications in the fiscal year ending March 31, 2018.

Mining

The mining market represented approximately 3% and 3% of our net sales in the fiscal years ended March 31, 2017 and 2016, respectively. We provide market-leading lubricants to open gears used in large mining excavation equipment, primarily through our distribution network. The mining industry has experienced headwinds recently due to reduced coal prices, which is caused by lower oil and gas prices. We are not anticipating a significant improvement in market conditions for the mining industry in the fiscal year ending March 31, 2018.

RESULTS OF OPERATIONS

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

The acquisitions listed below impact comparability:

| <u>Acquisition</u> | <u>Effective Date</u> | <u>Segment</u> |
|--------------------|-----------------------|--------------------------------|
| Greco | February 28, 2017 | Industrial Products |
| Leak Freeze | December 16, 2015 | Specialty Chemicals |
| Deacon | October 1, 2015 | Coatings, Sealants & Adhesives |
| Strathmore | April 2, 2015 | Coatings, Sealants & Adhesives |

The operations of each acquired business have been included in the applicable segment since the effective date of the acquisition. All acquisitions are described in Note 2 to our consolidated financial statements included in Item 8 of this Annual Report.

Throughout this discussion, we refer to costs incurred related to “restructuring and realignment.” These costs represent both restructuring and non-restructuring charges incurred as a result of manufacturing footprint optimization activities, including those activities described in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report.

Net Revenues

| (amounts in thousands) | <u>Fiscal Years Ended March 31,</u> | | |
|------------------------|-------------------------------------|-------------|-------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Revenues, net | \$ 327,084 | \$ 319,831 | \$ 261,834 |

Net revenues for the fiscal year ended March 31, 2017 increased \$7.3 million, or 2.3%, as compared with the fiscal year ended March 31, 2016, including \$5.1 million related to acquisitions. Excluding the impact of acquisitions, increased sales volumes of both existing products and new products, particularly into the HVAC (\$11.8 million), architecturally-specified building products (\$8.1 million) and plumbing (\$2.3 million) markets, were mostly offset by decreased sales into the energy and rail (combined \$17.2 million) and mining (\$2.4 million) markets.

Net revenues for the fiscal year ended March 31, 2016 increased \$58.0 million, or 22.2%, as compared with the fiscal year ended March 31, 2015, including \$58.9 million related to acquisitions. Excluding the impact of acquisitions, decreased sales volumes into the energy and mining industries were mostly offset by higher sales volumes of both existing products and new products, particularly into the HVAC and architecturally-specified building products markets.

Net revenues into the Americas, Europe, Middle East and Africa, and Asia Pacific represented approximately 90%, 6%, and 4% of net revenues, respectively, for the fiscal year ended March 31, 2017, 89%, 7%, and 4% of net revenues, respectively, for the fiscal year ended March 31, 2016 and 84%, 9%, and 7% of net revenues, respectively, for the fiscal year ended March 31, 2015. The increase in net revenue into the Americas for the fiscal year ended March 31, 2016 as compared with the prior period is attributable to the acquisition of Strathmore, whose customers are generally U.S.-based. The presentation of net revenues by geographic region is based on the location of the customer. For additional information regarding net revenues by geographic region, see Note 17 to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” (“Item 8”) of this Annual Report.

Gross Profit and Gross Profit Margin

| (amounts in thousands, except percentages) | Fiscal Years Ended March 31, | | |
|--|------------------------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Gross profit | 133,837 | 147,864 | 126,425 |
| Gross profit margin | 40.9% | 46.2% | 48.3% |

Gross profit for the fiscal year ended March 31, 2017 decreased \$14.0 million, or 9.5%, as compared with the fiscal year ended March 31, 2016, net of \$2.7 million related to acquisitions. Gross profit margin for the fiscal year ended March 31, 2017 of 40.9% decreased from 46.2% for the fiscal year ended March 31, 2016. The decrease was attributable to continued profitability challenges for products sold into the rail and energy markets, restructuring and realignment charges (\$7.4 million), a pension plan curtailment benefit in the prior year that did not recur (\$2.7 million), write-offs of inventory (\$2.1 million), increased freight (\$0.9 million), increased other post-retirement benefits following the freeze of the pension plan (\$0.8 million) and a sales mix shift to lower margin products.

Gross profit for the fiscal year ended March 31, 2016 increased \$21.4 million, or 17.0%, as compared with the fiscal year ended March 31, 2015, including \$15.9 million related to acquisitions. Gross profit margin for the fiscal year ended March 31, 2016 of 46.2% decreased from 48.3% for the fiscal year ended March 31, 2015. The decrease was caused primarily by the addition of lower gross margin associated with Strathmore products, partially offset by a pension plan curtailment benefit (\$2.7 million), changes in product mix and lower materials costs for certain products.

Selling, General and Administrative Expense

| (amounts in thousands, except percentages) | Fiscal Years Ended March 31, | | |
|---|------------------------------|---------|--------|
| | 2017 | 2016 | 2015 |
| Selling, general and administrative expense | 111,356 | 100,378 | 82,391 |
| Selling, general and administrative expense as a % of sales | 34.0% | 31.4% | 31.5% |

Selling, general and administrative expense for the fiscal year ended March 31, 2017 increased \$11.0 million, or 10.9%, as compared with the fiscal year ended March 31, 2016. The increase was attributable to restructuring and realignment costs (\$5.4 million), our chief financial officer transition and other severance costs (\$2.8 million), implementation costs related to design of our internal controls framework (\$1.4 million), increased other post-retirement benefits following the freeze of the pension plan (\$1.2 million), impairment of certain patents (\$0.3 million) and a pension plan curtailment benefit in the prior year that did not recur (\$5.3 million). These were partially offset by and organizational start-up costs incurred in connection with the Share Distribution in the prior year that did not recur (\$3.7 million) and a net decline in acquisition-related transaction costs (\$1.0 million).

Selling, general and administrative expense for the fiscal year ended March 31, 2016 increased \$18.0 million, or 21.8%, as compared with the fiscal year ended March 31, 2015. The increase was attributable to acquired operations (\$17.5 million, which includes \$3.4 million of transaction costs) and organizational start-up costs incurred in connection with the Share Distribution (\$3.7 million), as well as increased sales and distribution expenses consistent with increased sales volumes and increased personnel-related expenses and professional fees. These increases were partially offset by a pension plan curtailment benefit (\$5.3 million) and the reversal of the liability for the earn-out related to the Strathmore acquisition (\$2.0 million), as well as expenses recorded in the prior year that did not recur, including retention and severance costs associated with the consolidation of selected manufacturing activities (\$1.3 million), bad debt related to one non-U.S. customer (\$1.2 million), research and development expenses related to a project for the development of certain fire and smoke prevention products and an impairment loss (\$0.7 million) recognized on a patent and a trademark.

Operating Income

| (amounts in thousands, except percentages) | Fiscal Years Ended March 31, | | |
|--|------------------------------|--------|--------|
| | 2017 | 2016 | 2015 |
| Operating income | 22,481 | 47,486 | 44,034 |
| Operating margin | 6.9% | 14.8% | 16.8% |

Operating income for the fiscal year ended March 31, 2017 decreased by \$25.0 million, or 52.7%, as compared with the fiscal year ended March 31, 2016. The decrease was a result of the \$14.0 million decrease in gross profit and the \$11.0 million increase in selling, general and administrative expense as discussed above.

Operating income for the fiscal year ended March 31, 2016 increased by \$3.5 million, or 7.8%, as compared with the fiscal year ended March 31, 2015. The increase was primarily a result of the \$21.4 million increase in gross profit, partially offset by the \$18.0 million increase in selling, general and administrative expense as discussed above.

Other income and expense

Interest expense, net for the fiscal year ended March 31, 2017 decreased \$0.3 million as compared with the fiscal year ended March 31, 2016, primarily due to an overall reduction in average outstanding debt under our Revolving Credit Facility (described in Note 7 to our consolidated financial statements included in Item 8 included in this Annual Report).

Interest expense, net for the fiscal year ended March 31, 2016 increased \$2.4 million as compared with the fiscal year ended March 31, 2015, primarily due to interest expense recognized on the loan related to the acquisition of Strathmore and interest expense recognized on our Revolving Credit Facility.

Other income (expense), net increased by \$2.0 million for the fiscal year ended March 31, 2017 to income of \$1.8 million as compared with the fiscal year ended March 31, 2016. The improvement was primarily due to an increase in gains arising from transaction in currencies other than our sites' functional currencies.

Other income (expense), net decreased by \$1.7 million for the fiscal year ended March 31, 2016 to expense of \$0.2 million as compared with the fiscal year ended March 31, 2015. The decline was primarily due to a \$0.9 million gain on the sale of real estate in the prior year that did not recur.

Provision for Income Taxes and Effective Tax Rate

The provision for income taxes for the fiscal year ended March 31, 2017 was \$10.5 million, representing an effective tax rate of 48.6%, as compared with the provision of \$18.8 million, representing an effective tax rate of 42.4%, for the fiscal year ended March 31, 2016 and the provision of \$15.2 million, representing an effective tax rate of 33.9%, for the fiscal year ended March 31, 2015. As compared with the statutory rate, for the fiscal year ended March 31, 2017, the provision for income taxes was primarily impacted by an increase in the reserve for uncertain tax positions, which increased the provision by \$1.6 million and the effective tax rate by 7.4%, as well as a deferred tax true-up adjustment, which increased the provision by \$1.0 million and the effective tax rate by 4.8%. Other items impacting the effective tax rate include foreign operations activity in countries with lower statutory rates and domestic operations activity in states with higher statutory rates.

We accrue interest and penalties on uncertain tax positions as a component of our provision for income taxes. We accrued interest and penalties on uncertain tax positions of \$0.2 million and \$0.2 million, respectively, for the fiscal year ended March 31, 2017. We accrued interest and penalties on uncertain tax positions of \$0.2 million and \$0.2 million, respectively, for the fiscal year ended March 31, 2016. We did not recognize any interest and penalties for uncertain tax positions for the fiscal year ended March 31, 2015.

As of March 31, 2017 and 2016, we had \$0.6 million and \$0.2 million, respectively, in tax effected net operating loss carryforwards. Net operating loss carryforwards will expire in periods beyond the next five years.

Business Segments

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

Industrial Products Segment Results

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

| | Fiscal Years Ended March 31, | | |
|--|------------------------------|------------|------------|
| | 2017 | 2016 | 2015 |
| (amounts in thousands, except percentages) | | | |
| Revenues, net | \$ 158,654 | \$ 138,594 | \$ 118,422 |
| Operating income | 32,893 | 31,075 | 19,711 |
| Operating margin | 20.7% | 22.4% | 16.6% |

Net revenues for the fiscal year ended March 31, 2017 increased \$20.1 million, or 14.5%, as compared with the fiscal year ended March 31, 2016, including \$1.2 million related to acquisitions. Excluding the impact of acquisitions, sales volumes increased

in both existing products and new products, particularly into the HVAC (\$11.8 million), architecturally-specified building products (\$8.1 million) and plumbing (\$2.3 million) markets and were slightly offset by a decline in sales of rail lubricators.

Net revenues for the fiscal year ended March 31, 2016 increased \$20.2 million or 17.0%, as compared with the fiscal year ended March 31, 2015. The increase was primarily attributable to increased volumes, as well as a slight improvement in pricing and \$2.9 million attributable to acquisitions. Excluding the impact of acquisitions, increases in sales volumes and prices accounted for approximately 94% and 6%, respectively, of the increase in net revenues, and the increase in sales volumes resulted mainly from increased sales of existing products (\$13.0 million), reflecting greater demand in the HVAC and the architecturally-specified building products markets, and sales of fire and smoke prevention products related to projects that were expected to begin in the prior fiscal year, but were started or completed in the first quarter because of customer delays (\$2.5 million).

Operating income for the fiscal year ended March 31, 2017 increased \$1.8 million, or 5.9%, as compared with the fiscal year ended March 31, 2016. The increase was primarily attributable to increased net revenues, partially offset by a pension plan curtailment benefit in the prior year that did not recur (\$3.2 million), restructuring and realignment costs (\$0.6 million) and implementation costs related to design of our internal controls framework (\$0.4 million).

Operating income for the fiscal year ended March 31, 2016 increased \$11.4 million, or 57.7%, as compared with the fiscal year ended March 31, 2015. The increase was primarily attributable to increased net revenues, as well as the decrease in expenses due to a pension plan curtailment benefit (\$3.2 million) and an impairment loss (\$0.7 million) recognized on a patent and trademark in the prior period that did not recur. These improvements were partially offset by increases in selling, general and administrative expenses due to personnel-related expenses and higher freight and commission expenses associated with increased sales volumes.

Coatings, Sealants & Adhesives Segment Results

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

| | Fiscal Years Ended March 31, | | |
|--|------------------------------|------------|-----------|
| | 2017 | 2016 | 2015 |
| (amounts in thousands, except percentages) | | | |
| Revenues, net | \$ 96,869 | \$ 106,035 | \$ 52,119 |
| Operating income | 851 | 10,911 | 11,420 |
| Operating margin | 0.9% | 10.3% | 21.9% |

Net revenues for the fiscal year ended March 31, 2017 decreased \$9.2 million, or 8.6%, as compared with the fiscal year ended March 31, 2016, net of \$1.8 million contributed by acquisitions. The decrease was attributable to declining sales volumes into the rail (\$13.1 million), energy (\$2.3 million) and industrial (\$1.9 million) markets, which were partially offset by increased sales of thread sealants and firestopping products (\$4.3 million).

Net revenues for the fiscal year ended March 31, 2016 increased \$53.9 million, or 103.4%, as compared with the fiscal year ended March 31, 2015. The increase was attributable to \$54.6 million from acquisitions. Excluding the impact of acquisitions, sales into the energy industry declined, which were partially offset by increased sales into plumbing and general industrial markets.

Operating income for the fiscal year ended March 31, 2017 decreased \$10.1 million, or 92.2%, as compared with the fiscal year ended March 31, 2016, net of \$1.2 million contributed by acquisitions. The decrease was attributable to the impact of decreased net revenues, restructuring and realignment costs (\$3.8 million), impairment of the Strathmore trademark (\$2.8 million), reversal of the liability for the earn-out related to the Strathmore acquisition in the prior year that did not recur (\$2.0 million), a pension plan curtailment benefit in the prior year that did not recur (\$1.4 million), inventory write-offs (\$1.0 million) and implementation costs related to design of our internal controls framework (\$0.3 million), partially offset by Strathmore integration and transaction costs in the prior year that did not recur.

Operating income for the fiscal year ended March 31, 2016 decreased \$0.5 million, or 4.5%, as compared with the fiscal year ended March 31, 2015. The impact of increased net revenues, as well as the reversal of the liability for the earn-out related to the Strathmore acquisition (\$2.0 million) and a decrease in expenses due to a pension plan curtailment benefit (\$1.4 million) were offset by increases in selling, general and administrative expenses (\$11.3 million) related to acquired operations, as well as Strathmore integration and transaction costs (\$4.2 million) and personnel-related expenses and professional fees.

Specialty Chemicals Segment Results

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

| (amounts in thousands, except percentages) | Fiscal Years Ended March 31, | | |
|--|------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Revenues, net | \$ 71,469 | \$ 74,930 | \$ 89,738 |
| Operating income | 2,012 | 12,490 | 13,016 |
| Operating margin | 2.8% | 16.7% | 14.5% |

Net revenues for the fiscal year ended March 31, 2017 decreased \$3.5 million, or 4.6%, as compared with the fiscal year ended March 31, 2016, net of \$2.1 million contributed by acquisitions. The decrease was attributable to declining sales volumes into the mining (\$2.4 million), energy and industrial (\$1.9 million) and rail (\$1.8 million) markets.

Net revenues for the fiscal year ended March 31, 2016 decreased \$14.8 million, or 16.5%, as compared with the fiscal year ended March 31, 2015, net of \$1.4 million contributed by acquisitions. The decrease in net revenues was due to decreases in sales volumes related primarily to a slowdown in the energy industry (\$14.5 million), which indirectly impacted other end markets, as well as a decrease in sales volumes into the mining and industrial markets (\$5.7 million). These decreases were partially offset by an increase in sales volumes associated with both new and existing lubricant products offered to the rail industry (\$4.0 million), and to a lesser extent, an increase in prices.

Operating income for the fiscal year ended March 31, 2017 decreased \$10.5 million, or 83.9%, as compared with the fiscal year ended March 31, 2016, net of \$1.0 million contributed by acquisitions. The decrease was attributable to the impact of decreased net revenues, restructuring and realignment costs (\$5.6 million), a pension plan curtailment benefit in the prior year that did not recur (\$3.4 million), inventory write-offs (\$0.8 million) and implementation costs related to design of our internal controls framework (\$0.5 million).

Operating income for the fiscal year ended March 31, 2016 decreased \$0.5 million, or 4.0%, as compared with the fiscal year ended March 31, 2015. The improvement was primarily due to a decrease in expenses due to a pension plan curtailment benefit (\$3.4 million) and lower freight and commissions expenses resulting from the decrease in sales volumes, as well as expenses recorded in the prior year that did not recur, including retention and severance costs associated with the consolidation of selected manufacturing activities (\$1.3 million) and bad debt related to one non-U.S. customer (\$1.2 million). These benefits were mostly offset by the impact of the decrease in net revenues, as well as transaction costs (\$0.5 million) and increased system costs, personnel-related expenses and professional fees.

For additional information on segments, see Note 17 to our consolidated financial statements included in Item 8 of this Annual Report.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

| | Fiscal Years Ended March 31, | | |
|---|------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| | (amounts in thousands) | | |
| Net cash provided by operating activities | \$ 39,036 | \$ 41,530 | \$ 35,468 |
| Net cash used in investing activities | (25,968) | (110,221) | (2,625) |
| Net cash provided by (used in) financing activities | (15,318) | 74,694 | (26,893) |

Existing cash, cash generated by operations and borrowings available under our Revolving Credit Facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance (including cash and equivalents, restricted cash and bank time deposits) at March 31, 2017 was \$24.9 million, as compared with \$39.3 million at March 31, 2016.

For the fiscal year ended March 31, 2017, our cash provided by operating activities was \$39.0 million, as compared with \$41.5 million and \$35.5 million for the fiscal years ended March 31, 2016 and 2015, respectively. Cash flows from working capital were flat for the fiscal year ended March 31, 2017, due to higher accounts payable and other current liabilities (\$4.7 million) and lower prepaid expenses and other current assets (\$1.1 million), offset by higher accounts receivable (\$5.8 million). Cash

flows from working capital increased for the fiscal year ended March 31, 2016, due primarily to lower inventories (\$5.1 million), lower accounts receivable (\$2.5 million) and higher accounts payable and other current liabilities (\$0.9 million), partially offset by higher prepaid expenses and other current assets (\$4.9 million). Cash flows from working capital decreased for the fiscal year ended March 31, 2015, due primarily to higher inventories (\$6.7 million), mostly offset by lower prepaid expenses and other current assets (\$4.4 million) and higher accounts payable and other current liabilities (\$1.1 million).

Cash flows used by investing activities during the fiscal year ended March 31, 2017 were \$26.0 million as compared with \$110.2 million and \$2.6 million for the fiscal years ended March 31, 2016 and 2015, respectively. Capital expenditures during the fiscal years ended March 31, 2017, 2016 and 2015 were \$9.4 million, \$11.1 million and \$8.7 million, respectively. Our capital expenditures are focused on capacity expansion, continuous improvement, automation and consolidation of manufacturing facilities. We are in the process of optimizing some manufacturing operations, including the restructuring of our Strathmore operations within our Coatings, Sealants & Adhesives segment. Our total capital expenditure requirements related to these activities are currently expected to be approximately \$2 - \$3 million during the fiscal year ending March 31, 2017. As discussed in Note 2 to our consolidated financial statements included in Item 8 of this Annual Report, we acquired Greco Aluminum Railings for \$28.2 million, net of cash acquired, during the fiscal year ended March 31, 2017 and we acquired Strathmore for \$68.8 million, Deacon for \$12.6 million and Leak Freeze for \$16.3 million during the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2015, we received total proceeds of \$9.9 million from the sale of assets, and used \$4.5 million to acquire the Evo-Crete and Polyslab product lines.

Cash flows used in financing activities during the fiscal year ended March 31, 2017 were \$15.3 million as compared with cash provided of \$74.7 million and cash used of \$26.9 million for the fiscal years ended March 31, 2016 and 2015, respectively. Cash outflows during the fiscal year ended March 31, 2017 resulted primarily from \$46.5 million in repayments on our lines of credit (as discussed in Note 7 to our consolidated financial statements included in Item 8 of this Annual Report), partially offset by cash inflows from \$30.0 million in borrowings on our Revolving Credit Facility, which were used to acquire Greco. Cash inflows during the fiscal year ended March 31, 2016 resulted primarily from borrowings on our Revolving Credit Facility, which we used to repay amounts outstanding under the Strathmore Acquisition Term Loan and the RectorSeal Line of Credit and fund the acquisition of Leak Freeze, and a contribution of \$13.0 million from Capital Southwest in connection with the Share Distribution. During the fiscal year ended March 31, 2015, we had net repayments on outstanding lines of credit of \$18.4 million and paid dividends to Capital Southwest of \$8.3 million.

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

Acquisitions and Dispositions

We regularly evaluate acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition, including our ability to raise capital, is a critical consideration in any such evaluation.

Note 2 to our consolidated financial statements included in Item 8 of this Annual Report contains a discussion of our acquisitions.

Financing

Credit Facilities

See Note 7 to our consolidated financial statements included in Item 8 of this Annual Report for a discussion of our indebtedness. We were in compliance with all covenants contained in our credit facility as of March 31, 2017.

We have entered into interest rate swap agreements to hedge our exposure to variable interest payments related to our indebtedness. These agreements are more fully described in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report, and in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” below.

Off-Balance Sheet Arrangements

As of March 31, 2017, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a material adverse effect on our financial condition or results of operations.

OUTLOOK FOR FISCAL YEAR 2018

Consolidated revenue for the year ended March 31, 2017 was \$327.1 million, an increase of \$7.3 million or 2.3%, as compared with the year ended March 31, 2016.

Looking ahead, the year ending March 31, 2018 (“Fiscal 2018”) is poised to be an important year as we remain focused on our operational commitments and priorities while advancing our strategic initiatives as a standalone public company. We have

a diverse product portfolio that serves an attractive and broad range of growing end markets, primarily in North America, and we have a stable platform for acquisitions with a proven track record of product enhancement and customer centric solutions. We expect to see revenue growth in the majority of our key end use markets during Fiscal 2018, including HVAC, plumbing, rail, architecturally-specified building products and industrial markets. We anticipate that this expected revenue growth will be driven by our innovative technologies, product differentiation, recent acquisitions and favorable industry trends. Other end markets, however, are anticipated to remain flat or slightly down during Fiscal 2018 due to ongoing lack of stability in the energy markets. This includes our sales into energy and mining end markets where we do not expect to see meaningful recovery during Fiscal 2018.

We are focused on operational excellence in all aspects of our business, leading to improved efficiencies and increased profitability. We have established centers of excellence across our company to capture and leverage organizational synergies. Operational excellence is expected to generate approximately \$2 million of additional annual savings in Fiscal 2018 in our Specialty Chemicals segment due to the completion of the integration of Jet-Lube and Whitmore, as we generated approximately \$3 million of these savings in Fiscal 2017 with full run-rate savings expected to be approximately \$5 million by the end of Fiscal 2018. We also expect the approximately \$2 million in annual run-rate procurement savings across the organization generated in Fiscal 2017 will continue in Fiscal 2018. Our Coatings, Sealants & Adhesives segment results are expected to improve as Strathmore's integration plan progresses, including ongoing manufacturing footprint optimization efforts, margin remediation initiatives and revenue growth from recapturing lost market share and acceleration of product development for new applications. We expect this will generate approximately \$2 million in annual run rate savings beginning in Fiscal 2018.

In Fiscal 2018, we expect capital expenditures to be approximately \$8 to \$10 million. Capital expenditures will be focused on consolidation of manufacturing facilities, maintenance and replacement, continuous improvement and automation. Additionally, we will continue to evaluate acquisition opportunities of various sizes.

CONTRACTUAL OBLIGATIONS

The following table presents a summary of our contractual obligations at March 31, 2017 (in thousands):

| | Payments due by Period (1) | | | | |
|---|----------------------------|------------------|------------------|------------------|-------------------|
| | < 1 Year | 1-3 Years | 3-5 Years | > 5 Years | Total |
| Long-term debt obligations, principal (2) | \$ 561 | \$ 1,122 | \$ 61,747 | \$ 9,777 | \$ 73,207 |
| Long-term debt obligations, interest (2) | 2,307 | 4,532 | 2,289 | 4,157 | 13,285 |
| Operating lease obligations (3) | 2,929 | 5,214 | 3,552 | 4,136 | 15,831 |
| Purchase obligations (4) | 24,420 | 3,054 | — | — | 27,474 |
| Other long-term liabilities (5) | 258 | 7,210 | — | — | 7,468 |
| Total (6) | <u>\$ 30,475</u> | <u>\$ 21,132</u> | <u>\$ 67,588</u> | <u>\$ 18,070</u> | <u>\$ 137,265</u> |

- (1) The less than one year category represents the fiscal year ended March 31, 2018, the 1-3 years category represents fiscal years ending March 31, 2019 and 2020, the 3-5 years category represents fiscal years ending March 31, 2021 and 2022 and the greater than five years category represents fiscal years ending March 31, 2023 and thereafter.
- (2) Amounts include principal and interest cash payments through the maturity of the outstanding debt obligations. See Note 7 to our consolidated financial statements included in Item 8 of this Annual Report.
- (3) Sales taxes, value added taxes and goods and services taxes included as part of recurring lease payments are excluded from the amounts shown above.
- (4) Purchase obligations include agreements to purchase goods or services that are enforceable, legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.
- (5) Amounts primarily include deferred and contingent consideration payable due to acquisitions and future payments under outstanding deferred compensation awards. The liability for retirement benefits payable related to our defined benefit pension plans is excluded from the contractual obligations table as it does not represent expected liquidity requirements.
- (6) Operating lease and purchase obligations denominated in foreign currencies are projected based on the exchange rate in effect on March 31, 2017. Excludes amounts that have been eliminated in our consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based upon information available at the time of the estimates or assumptions, including our historical experience, where relevant. The most significant estimates made by management include: timing and amount of revenue recognition; deferred taxes and tax reserves; pension benefits; and valuation of goodwill and indefinite-lived

intangible assets, both at the time of initial acquisition, as well as part of recurring impairment analyses, as applicable. The significant estimates are reviewed at least annually if not quarterly by management. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may differ from the estimates, and the difference may be material.

Our critical accounting policies are those policies that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following represent our critical accounting policies. For a summary of all of our significant accounting policies, see Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. Management and our external auditors have discussed our critical accounting estimates and policies with the Audit Committee of our Board of Directors.

Revenue Recognition

We generally recognize revenue upon shipment of product, at which time title and risk of loss passes to the customer. Additionally, we require that all of the following circumstances are satisfied: (a) persuasive evidence of an arrangement exists, (b) price is fixed or determinable, (c) collectability is reasonably assured and (d) delivery has occurred or services have been rendered. Net revenues represent gross revenues invoiced to customers less certain related charges for contractual discounts or rebates. Discounts provided to customers at the point of sale are recognized as reductions in revenue as the products are sold. Rebate amounts are recorded as a reduction of revenue on a monthly basis using estimates of customer participation and performance. Freight charges billed to customers are included in net revenues and the related shipping costs are included in cost of revenues in our consolidated statements of income.

Deferred Taxes and Tax Reserves

Deferred tax assets and liabilities are determined based on temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Based on the evaluation of available evidence, both positive and negative, we recognize future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, to the extent that these benefits are more likely than not to be realized. We base our judgment of the recoverability of our deferred tax assets primarily on historical earnings, our estimate of current and expected future earnings using historical and projected future operating results, and prudent and feasible tax planning strategies.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various taxing authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. Tax benefits recognized in the financial statements from uncertain tax positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. For the fiscal year ended March 31, 2017, we increased our uncertain tax position by \$1.1 million, net of settlements of \$0.5 million, and we recognized an additional \$0.4 million in interest and penalties in income tax expense. For the fiscal year ended March 31, 2016, we recognized an uncertain tax position in the amount of \$0.9 million, and we recognized \$0.4 million in interest and penalties in income tax expense. Our liability for uncertain tax positions contains uncertainties as management is required to make assumptions and apply judgments to estimate exposures associated with our tax positions. We did not recognize any uncertain tax positions or interest and penalties in income tax expense for the fiscal year ended March 31, 2015.

We are currently not under examination for any of our U.S. federal income taxes or state income taxes.

While we believe we have adequately provided for any reasonably foreseeable outcome related to these matters, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities. To the extent that the expected tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Pension Benefits

Certain of our U.S. employees hired prior to January 1, 2015 participate in a qualified defined benefit pension plan (the "Qualified Plan"). The Qualified Plan is closed to any employees hired or re-hired on or after January 1, 2015. The Qualified Plan was amended to freeze benefit accruals and to modify certain ancillary benefits effective as of September 30, 2015. The assets, liabilities and expenses we recognize and disclosures we make about plan actuarial and financial information are dependent on the assumptions and estimates used in calculating such amounts. The assumptions include factors such as discount rates, health care cost trend rates, inflation, expected rates of return on plan assets, retirement rates, mortality rates, turnover, rates of compensation increases and other factors. We maintain an unfunded retirement restoration plan (the "Restoration Plan") that is

a non-qualified plan providing for the payment to participating employees, upon retirement, of an amount equal to the difference between the maximum annual payment permissible under the Qualified Plan pursuant to federal limitations and the amount that would otherwise have been payable under the Qualified Plan. Consistent with the Qualified Plan, the Restoration Plan is closed to any employees hired or re-hired on or after January 1, 2015 and was amended effective September 30, 2015 to freeze benefit accruals and to modify certain ancillary benefits. We also maintain a registered defined benefit pension plan (the "Canadian Plan") that covers all of our employees based at our facility in Alberta, Canada, which is not material to our overall pension benefits and obligations.

The assumptions utilized to compute expense and benefit obligations are shown in Note 12 to our consolidated financial statements included in Item 8 of this Annual Report. These assumptions are assessed at least annually in consultation with independent actuaries as of March 31 and adjustments are made as needed. We evaluate prevailing market conditions, including appropriate rates of return, interest rates and medical inflation (health care cost trend) rates. We ensure that our significant assumptions are within the reasonable range relative to market data. The methodology to set our significant assumptions includes:

- Discount rates are estimated using high quality corporate bond yields with a duration matching the expected benefit payments. The discount rate is obtained from a universe of Aa-rated non-callable bonds across the full maturity spectrum to establish a weighted average discount rate. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.
- The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected future experience for trust asset returns, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

Depending on the assumptions used, pension expense could vary within a range of outcomes and have a material effect on reported earnings. In addition, the assumptions can materially affect benefit obligations and future cash funding. Actual results in any given year may differ from those estimated because of economic and other factors.

We evaluate the funded status of the Qualified Plan using current assumptions and determine the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations, cash flow requirements and other factors.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the aggregate purchase price over the fair value of identifiable net assets acquired in a business combination. We test goodwill at least annually for impairment at the reporting unit level, which is an operating segment or one level below an operating segment. Goodwill is tested for impairment more frequently if conditions arise or events occur that indicate that the fair value of the reporting unit is lower than the carrying value of that reporting unit. Goodwill is recorded in three reporting units.

We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Qualitative assessments use an evaluation of events and circumstances such as macroeconomic conditions, industry and market considerations, cost factors, financial performance factors, entity specific events, and changes in carrying value to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

If a reporting unit fails the qualitative assessment, then valuation models and other relevant data are used to estimate the reporting unit's fair value. The valuation models require the input of subjective assumptions. We use an income approach for impairment testing of goodwill using a discounted cash flow method. Significant estimates include future revenue and expense projections, growth estimates made to calculate terminal value, and a discount rate that approximates our weighted average cost of capital. We perform qualitative and quantitative assessments to test asset carrying values for impairment at January 31, which is the annual impairment testing date.

For purposes of completing the annual goodwill impairment test for fiscal year ended March 31, 2017, a qualitative assessment was utilized to assess the recoverability of goodwill for all three reporting units. The qualitative assessments were performed using an evaluation of events and circumstances as noted above. Due to the profitability of two of our reporting units, management concluded that a quantitative test for impairment should be performed. Based on the current estimate of fair value for both of these reporting units, we determined that substantial excess value over the current carrying value exists. There were no goodwill impairment losses recognized for the fiscal years ended March 31, 2017, 2016 or 2015.

We have indefinite-lived intangible assets in the form of trademarks and license agreements. We review these intangible assets at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Significant assumptions used in the impairment test include the discount rate, royalty rate, future projections and terminal value growth rate. These inputs are considered non-recurring level three inputs within the fair value hierarchy. An

impairment loss would be recognized when estimated future cash flows are less than their carrying amount. We recorded impairment losses on intangible assets of \$3.0 million, \$0 and \$0.7 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

ACCOUNTING DEVELOPMENTS

We have presented the information about accounting pronouncements not yet implemented in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Variable Rate Indebtedness

We are subject to interest rate risk on our variable rate indebtedness. Fluctuations in interest rates have a direct effect on interest expense associated with our outstanding indebtedness. As of March 31, 2017, we had outstanding variable rate indebtedness of \$30.0 million, after consideration of interest rate swaps. We manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements. At March 31, 2017, we had interest rate swap agreements that covered \$43.2 million of the \$73.2 million of our total outstanding indebtedness. At March 31, 2017, the unhedged variable rate indebtedness of \$30.0 million had a weighted average interest rate of 2.23%. Each quarter point change in interest rates would result in a change of less than \$0.1 million in our interest expense on an annual basis.

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

Foreign Currency Exchange Rate Risk

We conduct a small portion of our operations outside of the U.S. in currencies other than the U.S. dollar. Our non-U.S. operations are conducted primarily in their local currencies, which are also their functional currencies, and include the British pound, Canadian dollar and Australian dollar. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions denominated in a currency other than a non-U.S. operation's functional currency. We realized net (losses) gains associated with foreign currency translation of \$(2.9) million, \$(1.4) million and \$(5.3) million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively, which are included in accumulated other comprehensive income (loss). We recognized foreign currency transaction net gains (losses) of \$1.1 million, \$(0.1) million and \$(0.3) million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively, which are included in other income (expense), net on our consolidated statements of income.

Based on a sensitivity analysis at March 31, 2017, a 10% change in the foreign currency exchange rates for the fiscal year ended March 31, 2017 would have impacted our net earnings by a negligible amount. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CSW Industrials, Inc.

We have audited the accompanying consolidated balance sheets of CSW Industrials, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended March 31, 2017. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSW Industrials, Inc. and subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of March 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 14, 2017 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Dallas, Texas
June 14, 2017

CSW INDUSTRIALS, INC.
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

| | March 31, | |
|---|--------------------------|--------------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 23,146 | \$ 25,987 |
| Bank time deposits | 1,776 | 13,278 |
| Accounts receivable, net | 63,782 | 52,637 |
| Inventories, net | 50,401 | 51,634 |
| Prepaid expenses and other current assets | 7,178 | 11,985 |
| Total current assets | <u>146,283</u> | <u>155,521</u> |
| Property, plant and equipment, net | 63,897 | 64,357 |
| Goodwill | 80,863 | 67,757 |
| Intangible assets, net | 90,610 | 88,727 |
| Other assets | 16,011 | 15,898 |
| Total assets | <u><u>\$ 397,664</u></u> | <u><u>\$ 392,260</u></u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 14,419 | \$ 9,912 |
| Accrued and other current liabilities | 22,756 | 21,090 |
| Current portion of long-term debt | 561 | 561 |
| Total current liabilities | <u>37,736</u> | <u>31,563</u> |
| Long-term debt | 72,646 | 89,121 |
| Retirement benefits payable | 1,464 | 1,746 |
| Other liabilities | 13,380 | 11,820 |
| Total liabilities | <u>125,226</u> | <u>134,250</u> |
| Equity: | | |
| Common shares, \$0.01 par value | 157 | 156 |
| Shares authorized - 50,000 | | |
| Shares issued - 15,846 and 15,659, respectively | | |
| Preferred shares, \$0.01 par value | — | — |
| Shares authorized - 10,000 | | |
| Shares issued - 0 | | |
| Additional paid-in capital | 38,701 | 31,597 |
| Treasury shares, at cost | (1,011) | — |
| Retained earnings | 245,026 | 233,955 |
| Accumulated other comprehensive loss | (10,435) | (7,698) |
| Total equity | <u>272,438</u> | <u>258,010</u> |
| Total liabilities and equity | <u><u>\$ 397,664</u></u> | <u><u>\$ 392,260</u></u> |

See accompanying notes to consolidated financial statements.

CSW INDUSTRIALS, INC.
CONSOLIDATED STATEMENTS OF INCOME

| | Fiscal Years Ended March 31, | | |
|--|------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| (Amounts in thousands, except per share amounts) | | | |
| Revenues, net | \$ 327,084 | \$ 319,831 | \$ 261,834 |
| Cost of revenues | (193,247) | (171,967) | (135,409) |
| Gross profit | 133,837 | 147,864 | 126,425 |
| Selling, general and administrative expense | (107,241) | (100,378) | (81,681) |
| Impairment loss | (4,115) | — | (710) |
| Operating income | 22,481 | 47,486 | 44,034 |
| Interest expense, net | (2,695) | (3,035) | (611) |
| Other (expense) income, net | 1,758 | (226) | 1,505 |
| Income before income taxes | 21,544 | 44,225 | 44,928 |
| Provision for income taxes | (10,473) | (18,754) | (15,223) |
| Net income | <u>\$ 11,071</u> | <u>\$ 25,471</u> | <u>\$ 29,705</u> |
| Net earnings per common share: | | | |
| Basic | \$ 0.70 | \$ 1.63 | \$ 1.91 |
| Diluted | 0.70 | 1.62 | 1.90 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Fiscal Years Ended March 31, | | |
|---|------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| (Amounts in thousands) | | | |
| Net income | \$ 11,071 | \$ 25,471 | \$ 29,705 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (2,884) | (1,371) | (5,277) |
| Cash flow hedging activity, net of taxes of \$(441), \$8 and \$649, respectively | 819 | (15) | (1,206) |
| Pension and other post retirement effects, net of taxes of \$311, \$(2,145) and \$3,396, respectively | (672) | 3,981 | (6,307) |
| Other comprehensive income (loss) | <u>(2,737)</u> | <u>2,595</u> | <u>(12,790)</u> |
| Comprehensive income | <u>\$ 8,334</u> | <u>\$ 28,066</u> | <u>\$ 16,915</u> |

See accompanying notes to consolidated financial statements.

CSW INDUSTRIALS, INC.
CONSOLIDATED STATEMENTS OF EQUITY

| (Amounts in thousands) | Common Stock | Treasury Shares | Additional Paid-In Capital | Retained Earnings | Net Investment of Capital Southwest | Accumulated Other Comprehensive Income | Total Equity |
|---|-------------------------|----------------------------|---|------------------------------|--|---|--------------------------|
| Balance at April 1, 2014 | \$ — | \$ — | \$ — | \$ 187,373 | \$ 6,316 | \$ 2,497 | \$ 196,186 |
| Net Income | — | — | — | 29,705 | — | — | 29,705 |
| Dividends | — | — | — | (8,294) | — | — | (8,294) |
| Repurchases of common shares | — | — | — | — | (206) | — | (206) |
| Other comprehensive income, net of tax | — | — | — | — | — | (12,790) | (12,790) |
| Balance at March 31, 2015 | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 208,784</u> | <u>\$ 6,110</u> | <u>\$ (10,293)</u> | <u>\$ 204,601</u> |
| Share-based and other executive compensation | — | — | 2,231 | — | — | — | 2,231 |
| Stock activity under stock plans | — | — | 96 | — | — | — | 96 |
| Tax benefit associated with share-based compensation | — | — | 212 | — | — | — | 212 |
| Net income | — | — | — | 25,471 | — | — | 25,471 |
| Dividends | — | — | — | (300) | — | — | (300) |
| Other comprehensive income, net of tax | — | — | — | — | — | 2,595 | 2,595 |
| Contributions from Capital Southwest | 156 | — | 29,058 | — | (6,110) | — | 23,104 |
| Balance at March 31, 2016 | <u>\$ 156</u> | <u>\$ —</u> | <u>\$ 31,597</u> | <u>\$ 233,955</u> | <u>\$ —</u> | <u>\$ (7,698)</u> | <u>\$ 258,010</u> |
| Share-based and other executive compensation | — | — | 4,641 | — | — | — | 4,641 |
| Stock activity under stock plans | 1 | (1,011) | 2,169 | — | — | — | 1,159 |
| Tax benefit associated with share-based compensation | — | — | 294 | — | — | — | 294 |
| Net income | — | — | — | 11,071 | — | — | 11,071 |
| Other comprehensive income, net of tax | — | — | — | — | — | (2,737) | (2,737) |
| Balance at March 31, 2017 | <u><u>\$ 157</u></u> | <u><u>\$ (1,011)</u></u> | <u><u>\$ 38,701</u></u> | <u><u>\$ 245,026</u></u> | <u><u>\$ —</u></u> | <u><u>\$ (10,435)</u></u> | <u><u>\$ 272,438</u></u> |

See accompanying notes to consolidated financial statements.

CSW INDUSTRIALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Amounts in thousands) | Fiscal Years Ended March 31, | | |
|---|------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Cash flows from operating activities: | | | |
| Net income | \$ 11,071 | \$ 25,471 | \$ 29,705 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation | 7,857 | 7,032 | 5,922 |
| Amortization of intangible and other assets | 7,939 | 7,129 | 4,593 |
| Provision for inventory reserves | 1,644 | — | — |
| Provision for doubtful accounts | 178 | (282) | 1,515 |
| Share-based and other executive compensation | 4,641 | 2,231 | — |
| Acquisition-related non-cash gain | (376) | (1,950) | — |
| Net loss (gain) on disposals of property, plant and equipment | 221 | 60 | (1,627) |
| Pension plan curtailment benefit | — | (8,020) | — |
| Net pension expense (benefit) | (1,092) | 3,506 | 3,392 |
| Impairment of assets | 4,115 | — | 710 |
| Net deferred taxes | 528 | 7,262 | (7,887) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (5,762) | 2,522 | (37) |
| Inventories, net | (36) | 5,056 | (6,655) |
| Prepaid expenses and other current assets | 1,132 | (4,945) | 4,351 |
| Other assets | (115) | (3,275) | 109 |
| Accounts payable and other current liabilities | 4,706 | 910 | 1,086 |
| Retirement benefits payable and other liabilities | 2,385 | (1,177) | 291 |
| Net cash provided by operating activities | 39,036 | 41,530 | 35,468 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (9,369) | (11,053) | (8,672) |
| Proceeds from sale of assets held for investment | 349 | — | 3,494 |
| Proceeds from sale of assets | 263 | 46 | 6,393 |
| Net change in bank time deposits | 10,968 | (1,978) | 3,353 |
| Cash paid for acquisitions, net of cash acquired | (28,179) | (97,236) | (7,193) |
| Net cash used by investing activities | (25,968) | (110,221) | (2,625) |
| Cash flows from financing activities: | | | |
| Borrowings on lines of credit | 30,000 | 179,040 | 12,229 |
| Repayments on lines of credit | (46,476) | (116,061) | (30,622) |
| Payments of deferred loan costs | — | (1,081) | — |
| Purchase of treasury shares | (1,011) | — | (206) |
| Cash contribution from Capital Southwest | — | 13,000 | — |
| Proceeds from stock option activity | 2,169 | 96 | — |
| Dividends paid to Capital Southwest | — | (300) | (8,294) |
| Net cash (used) provided by financing activities | (15,318) | 74,694 | (26,893) |
| Effect of exchange rate changes on cash and equivalents | (591) | (464) | (913) |
| Net change in cash and cash equivalents | (2,841) | 5,539 | 5,037 |
| Cash and cash equivalents, beginning of period | 25,987 | 20,448 | 15,411 |
| Cash and cash equivalents, end of period | \$ 23,146 | \$ 25,987 | \$ 20,448 |
| Supplemental non-cash disclosure: | | | |
| Cash paid during the year for interest | \$ 2,623 | \$ 3,074 | \$ 1,053 |
| Cash paid during the year for income taxes | 9,793 | 18,298 | 16,721 |
| Pension plan assets contributed by Capital Southwest | — | 10,357 | — |

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CSW Industrials, Inc. (“CSWI,” the “Company,” “we,” “our” or “us”) is a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilating and air conditioning (“HVAC”) and refrigeration applications, coatings and sealants and high performance specialty lubricants. Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. Our diverse product portfolio includes more than 100 highly respected industrial brands including RectorSeal No. 5™ thread sealants, KOPR KOTE™ anti-seize lubricants, Safe-T-Switch® condensate overflow shutoff devices, KATS® coatings, Air Sentry® breathers, RailPlex® tank car coatings, Deacon® high temperature sealants and AC Leak Freeze® to stop refrigerant leaks. Additionally, we recently acquired Greco™ engineered railing and safety systems.

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, industrial, rail, plumbing, architecturally-specified building products, energy, mining, and other general industrial markets.

The Share Distribution – On September 30, 2015, Capital Southwest Corporation (“Capital Southwest”) spun-off certain of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses by means of a distribution of the outstanding shares of common stock of CSWI on a pro rata basis to holders of Capital Southwest common stock (the “Share Distribution”). CSWI became an independent, publicly traded company at the time of the Share Distribution.

Restructuring – During the year ended March 31, 2017, we initiated a restructuring program related to our Coatings, Sealants & Adhesives segment and our Industrial Products segment. The programs were initiated in response to excess capacity due to contraction in the markets we serve, which caused us to perform a facility rationalization analysis. Restructuring charges are as follows (in thousands):

| | Severance/ Retention | Asset Write-down (a) | Other (b) | Total |
|---|-------------------------|----------------------------|-----------------|-----------------|
| <u>For the year ended March 31, 2017</u> | | | | |
| Cost of revenues | \$ 568 | \$ — | \$ 667 | \$ 1,235 |
| Selling, general and administrative expense | 451 | 2,800 | 175 | 3,426 |
| Total | <u>\$ 1,019</u> | <u>\$ 2,800</u> | <u>\$ 842</u> | <u>\$ 4,661</u> |
| <u>Total Expected Restructuring Charges (c):</u> | | | | |
| Cost of revenues | \$ 594 | \$ — | \$ 962 | \$ 1,556 |
| Selling, general and administrative expense | 451 | 2,800 | 175 | 3,426 |
| Total | <u>\$ 1,045</u> | <u>\$ 2,800</u> | <u>\$ 1,137</u> | <u>\$ 4,982</u> |

- The initiation of the restructuring program related to our Coatings, Sealants & Sealants segment triggered an analysis of our intangible assets recorded upon our acquisition of Strathmore. As a result of this analysis, we recorded an impairment of our Strathmore trademark.
- Other consists of moving costs related to relocation of manufacturing activities, consulting fees for production and efficiency support, recruiting fees to increase staff in locations where production is being relocated and duplicate and inefficient labor incurred during the transition and relocation. These charges will be expensed as incurred.
- Total expected restructuring charges represent management’s best estimate to date. As the execution of the program is still in process, the amount and nature of actual restructuring charges incurred could vary from total expected charges.

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

Basis of Presentation – CSWI began operations on September 30, 2015 as a result of the Share Distribution. With the exception of cash funded at inception and the contributed capital stock of Capital Southwest, we did not own any material assets prior to the Share Distribution. The historical financial position, results of operations and cash flows included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2017 (“Annual Report”) represent the consolidated financial statements of CSWI. As our businesses were under common control of Capital Southwest for all periods prior to September 30, 2015, the

financial statements have been consolidated for all historical periods and equity accounts presented in the balance sheet as of March 31, 2015 represent the combined equity accounts of our businesses. Equity accounts presented in the balance sheet as of March 31, 2016 and for all subsequent periods represent the equity of CSWI. The consolidated financial statements have been prepared on a standalone basis and are derived from the underlying accounting records of the underlying businesses in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”).

The consolidated financial statements include all revenues, costs, assets and liabilities directly attributable to CSWI. However, the consolidated financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had CSWI been operating as separate publicly-traded (“standalone”) companies during those periods. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates – The process of preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. We believe our estimates and assumptions are reasonable; however, actual results may differ materially from such estimates. The most significant estimates and assumptions are used in determining:

- Timing and amount of revenue recognition;
- Deferred taxes and tax reserves;
- Pension benefits; and
- Valuation of goodwill and indefinite-lived intangible assets.

Cash and Cash Equivalents – We consider all highly liquid instruments purchased with original maturities of three months or less and money market accounts to be cash equivalents. We maintain our cash and cash equivalents at financial institutions for which the combined account balances in individual institutions may exceed insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of insurance coverage. We had deposits in domestic banks of \$0.4 million and \$17.6 million at March 31, 2017 and 2016 respectively, and balances of \$22.2 million and \$8.4 million were held in foreign currencies in foreign banks at March 31, 2017 and 2016, respectively.

Bank Time Deposits – Bank time deposits include investments with maturities of over three months that are redeemable within one year of the fiscal year end without significant penalty. Our bank time deposits of \$1.8 million and \$13.3 million as of March 31, 2017 and 2016, respectively, are certificates of deposit held in Canada and the United Kingdom.

Allowance for Doubtful Accounts – The allowance for doubtful accounts is established based on estimates of the amount of uncollectible accounts receivable, which is determined principally based upon the aging of the accounts receivable, but also customer credit history, industry and market segment information, economic trends and conditions and credit reports. Customer credit issues, customer bankruptcies or general economic conditions may also impact our estimates. Credit risks are mitigated by the diversity of our customer base across different geographic regions and end markets.

Inventories and Related Reserves – Inventories are stated at the lower of cost or market and include raw materials, supplies, direct labor and manufacturing overhead. Cost is determined using the last-in, first-out (“LIFO”) method for valuing inventories at our primary domestic operations. Our foreign subsidiaries use either the first-in, first out method or the weighted average cost method to value inventory. Foreign inventories represent approximately 6% and 8% of total inventories as of March 31, 2017 and March 31, 2016, respectively.

Reserves are provided for slow-moving or excess and obsolete inventory based on the difference between the cost of the inventory and its net realizable value and by reviewing quantities on hand in comparison to historical and expected future usage. In estimating the reserve for excess or slow moving inventory, management considers factors such as product aging, current and future customer demand and market conditions.

Property, Plant and Equipment – Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the individual assets. When property, plant and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in income from operations for the period. Generally, the estimated useful lives of assets are:

| | |
|---------------------------------|---------------|
| Land improvements | 5 to 40 years |
| Buildings and improvements | 7 to 40 years |
| Plant, office and lab equipment | 5 to 10 years |

We review property, plant and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Repairs and maintenance costs are expensed as incurred, and significant improvements that either extend the useful life or increase the capacity or efficiency of property and equipment are capitalized and depreciated.

Valuation of Goodwill – Goodwill represents the excess of the aggregate purchase price over the fair value of identifiable net assets acquired in a business combination. We test goodwill at least annually for impairment. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Qualitative assessments use an evaluation of events and circumstances such as macroeconomic conditions, industry and market considerations, cost factors, financial performance factors, entity specific events, and changes in carrying value to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

If a reporting unit fails the qualitative assessment, then valuation models and other relevant data are used to estimate the reporting unit's fair value. The valuation models require the input of subjective assumptions. We use an income approach for impairment testing of goodwill and indefinite lived intangible assets, using a discounted cash flow method. Estimates of future revenue and expense are made for five years, growth estimates are made to calculate terminal value, and a discount rate is used that approximates our weighted average cost of capital. We perform qualitative or quantitative assessments to test asset carrying values for impairment at January 31, which is the annual impairment testing date. No impairment loss was recognized as a result of the impairment tests for the fiscal years ended March 31, 2017, 2016 or 2015.

Intangible Assets – We have intangible assets consisting of patents, trademarks, customer lists and non-compete agreements. Definite-lived intangible assets are assessed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. In addition, we have other trademarks and license agreements that are considered to have indefinite lives. We review indefinite-lived intangible assets at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Significant assumptions used in the impairment test include the discount rate, royalty rate, future projections and terminal value growth rate. These inputs are considered non-recurring level three inputs within the fair value hierarchy. An impairment loss would be recognized when estimated future cash flows are less than their carrying amount. We recorded an impairment of intangible assets of \$3.0 million, \$0 and \$0.7 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

Property Held for Investment – One of our non-operating subsidiaries holds and manages certain excess non-operating properties. Properties are valued at lower of cost or market and disposed of as opportunities arise to maximize value.

Deferred Loan Costs – Deferred loan costs, which are reported in other assets and consist of fees and other expenses associated with debt financing, are amortized over the term of the associated debt using the effective interest method.

Fair Values of Financial Instruments – Our financial instruments are presented at fair value in our consolidated balance sheets, with the exception of our long-term debt. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in our consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels, as defined by Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures," are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Hierarchical levels are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Recurring fair value measurements are limited to investments in derivative instruments and reserves for contingent consideration. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivative instruments are included in Note 10. The fair value measurements of our reserves for contingent consideration are classified as Level III and are generally determined using a weighted

average probability model based primarily on projected net revenues, with the following exception: contingent consideration related to the acquisition of Strathmore utilized the Monte Carlo simulation methodology and employed 200,000 trials using a risk neutral Geometric Brownian Motion methodology. The volatility used in the Monte Carlo analysis was based on the observed equity volatility of comparable companies, and the risk free discount rate was the U.S. treasury rate corresponding to the respective term of each earn-out. The most significant factor in the valuation is Strathmore's projected earnings before interest, taxes, depreciation and amortization.

Derivative Instruments and Hedge Accounting – We do not use derivative instruments for trading or speculative purposes. We enter into interest rate swap agreements for the purpose of hedging our cash flow exposure to floating interest rates on certain portions of our debt. All derivative instruments are recognized on the balance sheet at their fair values. Changes in the fair value of a designated interest rate swap are recorded in other comprehensive loss until earnings are affected by the underlying hedged item. Any ineffective portion of the gain or loss is immediately recognized in earnings. Upon settlement, realized gains and losses are recognized in interest expense in the consolidated statements of income.

We discontinue hedge accounting when (1) we deem the hedge to be ineffective and determine that the designation of the derivative as a hedging instrument is no longer appropriate; (2) the derivative matures, terminates or is sold; or (3) occurrence of the contracted or committed transaction is no longer probable or will not occur in the originally expected period. When hedge accounting is discontinued and the derivative remains outstanding, we carry the derivative at its estimated fair value on the balance sheet, recognizing changes in the fair value in current period earnings. If a cash flow hedge becomes ineffective, any deferred gains or losses remain in accumulated other comprehensive loss until the underlying hedged item is recognized. If it becomes probable that a hedged forecasted transaction will not occur, deferred gains or losses on the hedging instrument are recognized in earnings immediately.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under forward exchange contracts and interest rate swap agreements and expect all counterparties to meet their obligations. If necessary, we would adjust the values of our derivative contracts for our or our counterparties' credit risk.

Pension Obligations – Determination of pension benefit obligations is based on estimates made by management in consultation with independent actuaries. Inherent in these valuations are assumptions including discount rates, expected rates of return on plan assets, retirement rates, mortality rates and rates of compensation increase and other factors all of which are reviewed annually and updated if necessary. Current market conditions, including changes in rates of return, interest rates and medical inflation rates, are considered in selecting these assumptions.

- Discount rates are estimated using high quality corporate bond yields with a duration matching the expected benefit payments. The discount rate is obtained from a universe of Aa-rated non-callable bonds across the full maturity spectrum to establish a weighted average discount rate. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.
- The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected future experience for trust asset returns, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

Actuarial gains and losses and prior service costs are recognized in accumulated other comprehensive loss as they arise, and we amortize these costs into net pension expense over the remaining expected service period.

We used a measurement date of March 31 for all periods presented.

Revenue Recognition – We generally recognize revenue upon shipment of product, at which time title and risk of loss passes to the customer. Additionally, we require that all of the following circumstances are satisfied: a) persuasive evidence of an arrangement exists, b) price is fixed or determinable, c) collectability is reasonably assured and d) delivery has occurred or services have been rendered. Net revenues represent gross revenues invoiced to customers less certain related charges for contractual discounts or rebates. Revenues for certain long-term contracts are recorded on the percentage of completion method with progress measured on a cost-to-cost basis, and represent less than 7% of annual net sales. Discounts provided to customers at the point of sale are recognized as reductions in revenue as the products are sold. Rebate amounts are recorded as a reduction of revenue on a monthly basis using estimates of customer participation and performance. Freight charges billed to customers are included in net revenues and the related shipping costs are included in cost of revenues in our consolidated statements of income.

Research and Development – Research and development costs are expensed as incurred. Costs incurred for research and development primarily include salaries and benefits and consumable supplies, as well as rent, professional fees, utilities and the

depreciation of property and equipment used in research and development activities. Research and development costs included in selling, general and administrative expense were \$4.8 million, \$4.5 million and \$5.7 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

Share-based Compensation – Share-based compensation is measured at the grant-date fair value. The exercise price of stock option awards and the fair value of restricted share awards are set at the closing price of our common stock on the NASDAQ Stock Market, LLC on the date of grant, which is the date such grants are authorized by our Board of Directors. The fair value of performance-based restricted share awards is determined using a Monte Carlo simulation model incorporating all possible outcomes against a defined peer group. The fair value of share-based payment arrangements is amortized on a straight-line basis to compensation expense over the period in which the restrictions lapse based on the expected number of shares that will vest. To cover the exercise of options and vesting of restricted shares, we generally issue new shares from our authorized but unissued share pool, although we may instead issue treasury shares in certain circumstances.

Income Taxes, Deferred Taxes, Tax Valuation Allowances and Tax Reserves – We apply the liability method in accounting and reporting for income taxes. Under the liability approach, deferred tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts and the tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax rates expected to be in effect when these differences are expected to reverse. The effect on deferred tax assets and liabilities resulting from a change in tax rates is recognized in the period that includes the enactment date. The deferred income tax assets are adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, that it is more likely than not to be realized. This analysis is performed on a jurisdictional basis and reflects our ability to utilize these deferred tax assets through a review of past, current and estimated future taxable income in addition to the establishment of viable tax strategies that will result in the utilization of the deferred assets. We recognize income tax related interest and penalties, if any, as a component of income tax expense.

Unremitted Earnings – We consider the earnings of non-U.S. subsidiaries to be indefinitely invested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. Should we decide to repatriate foreign earnings, a deferred tax liability will be recorded and our income tax provision will be adjusted in the period we determined that the earnings will no longer be indefinitely invested outside the U.S. We provide deferred taxes for the temporary differences associated with our investment in foreign subsidiaries that have a financial reporting basis that exceeds tax basis, unless we can assert permanent reinvestment in foreign jurisdictions. Financial reporting basis and tax basis differences in investments in foreign subsidiaries consist of both unremitted earnings and losses, as well as foreign currency translation adjustments.

Uncertain Tax Positions – We establish income tax liabilities to remove some or all of the income tax benefit of any of our income tax positions based upon one of the following: (1) the tax position is not “more likely than not” to be sustained, (2) the tax position is “more likely than not” to be sustained, but for a lesser amount or (3) the tax position is “more likely than not” to be sustained, but not in the financial period in which the tax position was originally taken. The amount of income taxes we pay is subject to ongoing audits by federal, state, and foreign taxing authorities, which often result in proposed assessments. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various taxing authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Earnings Per Share – We use the two-class method of calculating earnings per share, which determines earnings per share for each class of common stock and participating security as if all earnings of the period had been distributed. As the holders of restricted stock are entitled to vote and receive dividends during the restriction period, unvested shares of restricted stock qualify as participating securities and, accordingly, are included in the basic computation of earnings per share. Our unvested restricted shares participate on an equal basis with common shares; therefore, there is no difference in undistributed earnings allocated to each participating security. Accordingly, the presentation in Note 8 is prepared on a combined basis and is presented as earnings per common share. Diluted earnings per share is based on the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options.

Foreign Currency Translation – Assets and liabilities of our foreign subsidiaries are translated to U.S. dollars at exchange rates prevailing at the balance sheet date, while income and expenses are translated at average rates for each month. Translation gains and losses are reported as a component of accumulated other comprehensive loss. Transactional currency gains and losses

arising from transactions in currencies other than our sites' functional currencies are included in our consolidated statements of income.

Transaction and translation gains and losses arising from intercompany balances are reported as a component of accumulated other comprehensive loss when the underlying transaction stems from a long-term equity investment or from debt designated as not due in the foreseeable future. Otherwise, we recognize transaction gains and losses arising from intercompany transactions as a component of income.

Segment Reporting – We conduct our operations through three business segments based on type of product and how we manage the business. The products for our segments are distributed both domestically and internationally. For decision-making purposes, our Chief Executive Officer and other members of senior executive management use financial information generated and reported at the reportable segment level. We evaluate segment performance and allocate resources based on each reportable segment's operating income. Our reportable segments are as follows:

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

Intersegment sales and transfers are recorded at cost plus a profit margin, with the sales and related margin on such sales eliminated in consolidation. We do not allocate interest expense, interest income or other (expense) income, net to our segments. Our corporate headquarters does not constitute a separate segment. The Eliminations and Other segment information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses primarily related to corporate functions and excess non-operating properties.

Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which has been subsequently amended with additional ASUs including ASU No. 2016-12 and ASU No. 2016-20, issued in May and December 2016, respectively. ASU No. 2014-09, as amended, supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are also expanded disclosure requirements in this ASU. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year. As a result, public entities will apply the new standard for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption as of the original public entity effective date is permitted. We are currently evaluating the impact of ASU No. 2014-09 on our consolidated financial condition and results of operations. We plan to adopt the new guidance effective April 1, 2018 using the modified retrospective approach.

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Amortization of those costs should be reported as interest expense. This ASU is effective for financial statements issued for annual and interim periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis for each period presented in the balance sheet. Our adoption of the amendments in this ASU in the quarter ended June 30, 2016 did not have a material impact on our consolidated financial condition or results of operations.

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

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

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)," which simplifies the accounting for share-based compensation. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-09 to have a material impact on our consolidated financial condition and results of operations.

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

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

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of ASU No. 2016-16 to have a material impact on our consolidated financial condition and results of operations.

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

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

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer

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

2. ACQUISITIONS

Greco Aluminum Railings

On February 28, 2017, we acquired the equity of Greco Aluminum Railings (“Greco”), based in Windsor, Ontario, Canada, for \$28.2 million, net of cash acquired, funded through our revolving credit facility. Greco is a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures in the U.S. and Canada. The excess of the purchase price over the fair value of the identifiable assets acquired was \$13.6 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive portfolio of architecturally-specified building products, which help make buildings safer and more aesthetically pleasing, while enabling compliance with building codes and leveraging our larger distributor network. The preliminary allocation of the fair value of the net assets acquired included customer lists, trademarks, non-compete agreements and a favorable leasehold of \$10.3 million, \$1.0 million, \$0.8 million and \$0.1 million, respectively, as well as property, plant and equipment and inventory of \$0.8 million and \$0.5 million, respectively, net of a deferred tax liability of \$3.4 million. Customer lists, the non-compete agreement and the favorable leasehold are being amortized over 15 years, five years and approximately 9 years (remaining life of the leasehold), respectively, while trademarks and goodwill are not being amortized. Greco activity has been included in our Industrial Products segment since the acquisition date. Greco contributed \$1.2 million and \$0.2 million in net sales and operating income, respectively, for the fiscal year ended March 31, 2017. No pro forma information has been provided due to immateriality.

AC Leak Freeze

On December 16, 2015, we acquired substantially all of the assets of AC Leak Freeze™ (“Leak Freeze”), based in Baltimore, Maryland for \$16.3 million in cash funded by borrowings under CSWI’s Revolving Credit Facility (discussed in Note 7). Leak Freeze is a leading manufacturer of original equipment manufacturer-approved air conditioning and refrigerant leak repair solutions. The excess of the purchase price over the fair value of the identifiable assets acquired was \$5.7 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive specialty chemical product portfolio for the HVAC market and leveraging our larger distributor network. The allocation of the fair value of the assets acquired included customer lists, trademarks and trade names and a non-compete agreement of \$8.1 million, \$1.4 million and \$0.2 million, respectively, as well as inventory in the amount of \$0.7 million. Customer lists and the non-compete agreement are being amortized over 10 years and five years, respectively, while trademarks and trade names and goodwill are not being amortized. Leak Freeze activity has been included in our Specialty Chemicals segment since the acquisition date. No pro forma information has been provided due to immateriality.

Deacon Industries, Inc.

On October 1, 2015, we acquired substantially all of the assets of Deacon Industries, Inc. (“Deacon”), based in Washington, Pennsylvania for \$12.6 million. The acquisition was funded by \$11.0 million of borrowings under a line of credit and \$1.1 million cash on hand. The remaining \$0.5 million of the purchase price represents a payment contingent upon the achievement of certain performance metrics during the fiscal year ending March 31, 2017. This liability was reduced to \$0 during the quarter ended December 31, 2016 based on expected achievement of performance metrics. Deacon is a leading manufacturer of high temperature sealants and injectable packings with applications in a variety of industrial end markets, both on an emergency and maintenance basis. The excess of the purchase price over the fair value of the identifiable assets acquired was \$4.1 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive sealant and injectable packing product portfolio and leveraging our larger distributor network. The allocation of the fair value of the assets acquired included customer lists, know-how, trademarks and trade names and a non-compete agreement of \$2.9 million, \$2.6 million, \$1.1 million, and \$0.1 million, respectively, as well as property, plant, and equipment and inventory in the amounts of \$0.9 million and \$0.5 million, respectively. Customer lists, know-how and the non-compete agreement are being amortized over 15 years, 10 years and five years, respectively, while trademarks and trade names and goodwill are not being amortized. Deacon activity has been included in our Coatings, Sealants & Adhesives segment since the acquisition date. No pro forma information has been provided due to immateriality.

Strathmore Products, Inc.

Effective April 1, 2015, we acquired the assets of Strathmore, a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds, for \$68.8 million, plus up to an additional \$16.5 million within a prescribed period of time following March 31, 2017, depending on the achievement of certain performance metrics during the fiscal years ending March 31, 2016 and 2017. A liability of \$2.0 million was recorded at acquisition based on the projected achievement of the performance metrics as estimated using the Monte Carlo simulation methodology. This liability was reduced to \$0 during the quarter ended December 31, 2015 based on expected achievement of performance metrics. The acquisition was funded from borrowings of \$70.0 million (as discussed in Note 7). Transaction costs incurred in connection with the acquisition were \$2.7 million (including \$0.2 million incurred during the fiscal year ended March 31, 2015) and are reported in selling, general and administrative expense in the accompanying consolidated statements of income. The preliminary excess of the purchase price over the fair value of the identifiable assets acquired was \$15.1 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be achieved from an increased market presence in the industrial coatings sector and a platform from which to grow through end-market and geographic expansion. During the quarter ended December 31, 2015, a measurement period adjustment was recorded to recognize \$2.7 million in prepaid compensation cost, which reduced the preliminary estimate of goodwill to \$12.4 million. Prepaid compensation is being amortized ratably to expense over the vesting period, which ends March 31, 2018. The preliminary fair value of the assets acquired included trade names and trademarks, customer relationships and non-compete agreements of \$14.9 million, \$27.4 million and \$0.4 million, respectively. During the quarter ended March 31, 2016, we finalized our allocation of the purchase price and recorded a measurement period adjustment, which resulted in a change in the fair values of customer relationships and trade names and trademarks to \$23.7 million and \$13.6 million, respectively, which resulted in an increase of \$5.0 million to goodwill. Customer relationships and the non-compete agreements are being amortized over 15 years and five years, respectively, while trade names, trademarks and goodwill are not being amortized. Strathmore has been included in the Coatings, Sealants & Adhesives segment since its effective acquisition date.

The following table summarizes the fair values of assets acquired and liabilities assumed (in thousands):

| | | |
|------------------------------------|----|---------|
| Accounts receivable | \$ | 4,902 |
| Inventory | | 8,447 |
| Property, plant and equipment | | 3,761 |
| Intangible assets | | 37,650 |
| Other, net | | 2,941 |
| Current liabilities | | (4,297) |
| Net tangible and intangible assets | | 53,404 |
| Goodwill | | 17,395 |
| Purchase price | \$ | 70,799 |

SureSeal Manufacturing

On January 2, 2015, we acquired selected assets and the SureSeal brand from SureSeal Manufacturing ("SureSeal") in Tacoma, Washington, a producer and distributor of waterless floor drain trap seals for an initial purchase price of \$8.1 million. Of the total purchase price, \$3.2 million has been paid using \$2.9 million funded from borrowings and \$0.3 million from available cash. The remaining purchase price is contingent upon SureSeal achieving certain performance metrics during the three- and six-year periods following the acquisition, and is based on a multiple of the lesser of gross margin or 67% of net sales during the final 12 months of the measurement period. A liability of \$4.9 million was originally recorded based on the achievement of the performance metrics as estimated using a weighted average probability model. The excess of the purchase price over the fair value of the identifiable assets acquired was \$4.5 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive product portfolio and leveraging our larger distributor network. The identifiable tangible and intangible assets included customer lists, trademarks and names, patents and a non-compete agreement of \$1.8 million, \$0.9 million, \$0.6 million, and \$0.1 million, respectively, as well as equipment of \$0.2 million. Patents, customer lists and the non-compete agreement are being amortized over 15 years, 10 years and five years, respectively, while trademarks and goodwill are not being amortized. The SureSeal product line activity has been included in the Industrial Products segment since its acquisition date. No pro forma information has been provided due to immateriality.

Evo-Crete and Polyslab product lines

On August 15, 2014, we acquired the Evo-Crete and Polyslab product lines for \$4.5 million from the Evolve Group located in Brisbane, Queensland and formed a new entity, RectorSeal Australia, Pty. Ltd ("RectorSeal Australia"). RectorSeal Australia

focuses on the plumbing, HVAC and irrigation markets. Evo-Crete and Polyslab continue to be manufactured in Australia. The purchase was funded from borrowings of \$3.0 million with the remainder funded from internal working capital. The excess of the purchase price over the fair value of the identifiable assets acquired was \$1.5 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive HVAC product portfolio, especially in the condensate management niche, and expansion of existing RectorSeal product sales into the Australian market. The fair value of the assets acquired included customer lists, patents, trademarks and a non-compete agreement of \$1.2 million, \$0.7 million, \$0.4 million, and \$0.1 million, respectively, as well as property, plant, and equipment in the amount of \$0.7 million. Customer lists, patents and the non-compete agreement are being amortized over 15 years, 10 years and five years, respectively, while trademarks and goodwill are not being amortized. RectorSeal Australia activity has been included in the Industrial Products segment since the acquisition date. No pro forma information has been provided due to immateriality.

3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2017 and 2016 were as follows (in thousands):

| | Industrial Products | Coatings, Sealants and Adhesives | Specialty Chemicals | Total |
|----------------------------|---------------------|----------------------------------|---------------------|-----------|
| Balance at April 1, 2015 | \$ 36,323 | \$ 920 | \$ 3,402 | 40,645 |
| Acquisition of Strathmore | — | 17,395 | — | 17,395 |
| Acquisition of Deacon | — | 4,105 | — | 4,105 |
| Acquisition of Leak Freeze | — | — | 5,741 | 5,741 |
| Currency translation | (129) | — | — | (129) |
| Balance at March 31, 2016 | \$ 36,194 | \$ 22,420 | \$ 9,143 | \$ 67,757 |
| Acquisition of Greco | 13,619 | — | — | 13,619 |
| Currency translation | (513) | — | — | (513) |
| Balance at March 31, 2017 | \$ 49,300 | \$ 22,420 | \$ 9,143 | \$ 80,863 |

The following table provides information about our intangible assets for the fiscal years ended March 31, 2017 and 2016 (in thousands, except years):

| | | March 31, 2017 | | March 31, 2016 | |
|---|----------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Wtd Avg Life (Years) | Ending Gross Amount | Accumulated Amortization | Ending Gross Amount | Accumulated Amortization |
| Finite-lived intangible assets: | | | | | |
| Patents (a) | 12 | \$ 9,576 | \$ (4,779) | \$ 14,458 | \$ (8,600) |
| Customer lists and amortized trademarks | 12 | 81,121 | (22,935) | 71,475 | (17,080) |
| Non-compete agreements | 5 | 1,819 | (334) | 1,310 | (405) |
| Other | 12 | 4,849 | (828) | 3,769 | (354) |
| | | <u>\$ 97,365</u> | <u>\$ (28,876)</u> | <u>\$ 91,012</u> | <u>\$ (26,439)</u> |
| Trade names and trademarks not being amortized: (b) | | <u>\$ 22,121</u> | <u>\$ —</u> | <u>\$ 24,154</u> | <u>\$ —</u> |

- (a) During the fiscal years ended March 31, 2017 and 2016, we wrote off \$4.0 million and \$2.9 million of intangible assets that were fully amortized.
- (b) During the fiscal year ended March 31, 2017, we recognized a \$2.8 million non-cash impairment charge related to the Strathmore trademark, which is included in the Coatings, Sealants and Adhesives segment.

Amortization expense for the years ended March 31, 2017, 2016 and 2015 was \$7.7 million, \$7.1 million and \$4.6 million, respectively. The following table presents the estimated future amortization of finite-lived intangible assets for the next five fiscal years ending March 31 (in thousands):

| | | |
|------|----|-------|
| 2018 | \$ | 8,098 |
| 2019 | | 7,250 |
| 2020 | | 7,007 |
| 2021 | | 6,784 |
| 2022 | | 6,335 |

4. SPIN-OFF EXECUTIVE COMPENSATION

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

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

As of December 29, 2015, the cash component of the Spin-Off Executive Compensation Plan was calculated based on the volume weighted average price of Capital Southwest and CSWI common stock for the 20 trading days ended December 29, 2015. Effective with the Share Distribution, CSWI entered into an Employee Matters Agreement with Capital Southwest. Under this agreement, Capital Southwest retained the obligation to fund the cash incentive awards granted under the Spin-Off Executive Compensation Plan, and all liabilities with respect to such cash incentive awards remained liabilities of Capital Southwest. During the fiscal year ended March 31, 2017, we recorded total executive compensation expense for the cash incentive payments of \$1.9 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of \$1.0 million. Within those amounts were \$1.2 million and \$1.0 million of cash incentive and stock compensation expenses, respectively, which were accelerated as a result of our chief financial officer transition in June 2016. During the fiscal year ended March 31, 2016, we recorded total executive compensation expense for the cash incentive payments of \$1.3 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of \$0.3 million.

5. SHARE-BASED COMPENSATION

In September 2015, CSWI adopted and Capital Southwest approved (as our sole shareholder) our 2015 Equity and Incentive Compensation Plan (the “2015 Plan”), which provides for the issuance of up to 1,230,000 shares of CSWI common stock through the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units or other share-based awards, to employees, officers and non-employee directors, as well as the issuance of conversion awards in connection with the Share Distribution. As of March 31, 2017, 1,024,695 shares were available for issuance under the 2015 Plan.

Additionally, in September 2015, in connection with the Spin-Off Executive Compensation Plan and Share Distribution, we issued 510,447 shares of common stock to adjust outstanding Capital Southwest equity-based awards to represent both Capital Southwest and CSWI equity-based awards. These conversion grants were issued on substantially the same terms and conditions as the prior Capital Southwest equity-based grants.

In connection with the Share Distribution, all stock option and restricted stock awards granted by Capital Southwest, including awards granted under the executive compensation plan discussed in Note 4, were adjusted and each holder of an award received both Capital Southwest and CSWI stock options and restricted stock awards.

- Each Capital Southwest stock option was converted into both a Capital Southwest stock option and a CSWI stock option, with adjustments made to the exercise prices and number of shares subject to each option in order to preserve the aggregate intrinsic value of the original Capital Southwest stock option as measured immediately before and immediately after the Share Distribution, subject to rounding. The adjusted Capital Southwest stock options and CSWI stock options were subject to substantially the same terms, vesting conditions, post-termination exercise rules and other restrictions that applied to the original Capital Southwest stock options immediately before the Share Distribution. Options generally expire 10 years from the date of grant and generally vest on or after the first anniversary of the date of grant in five annual installments. The fair value of stock options is determined using the Black-Scholes pricing model and such fair value is expensed on a straight-line basis over the requisite service period.
- The Capital Southwest restricted stock awards remained outstanding and the awardees additionally received one share of CSWI restricted stock for each share of Capital Southwest restricted stock held, which shares are subject to substantially the same terms, vesting conditions and other restrictions applicable to the Capital Southwest restricted stock award immediately before the Share Distribution. Restricted Stock awards generally have full voting and dividend rights, but are restricted with regard to sale or transfer. Unless otherwise specified in the award agreement, the restrictions do not expire for a minimum of one year and a maximum of five years and are subject to forfeiture during the restriction period. Typically, restricted share grants have staggered vesting periods over one to five years from the grant date. The fair value of restricted stock is based on the closing price of common stock on the date of grant and such fair value is expensed on a straight-line basis over the requisite service period.

The issuance of share-based compensation awards discussed above occurred in conjunction with the Share Distribution after the market closed on September 30, 2015. We record compensation expense for share-based awards granted by CSWI to CSWI employees and share-based awards granted by Capital Southwest to employees who are now employed by CSWI.

We recorded share-based compensation as follows for the fiscal year ended March 31, 2017 (in thousands):

| Fiscal Year Ended March 31, 2017 | | | |
|--------------------------------------|---------------|------------------|-----------------|
| | Stock Options | Restricted Stock | Total |
| Share-based compensation expense | \$ 473 | \$ 2,341 | \$ 2,814 |
| Related income tax benefit | (166) | (819) | (985) |
| Net share-based compensation expense | <u>\$ 307</u> | <u>\$ 1,522</u> | <u>\$ 1,829</u> |
| Fiscal Year Ended March 31, 2016 | | | |
| | Stock Options | Restricted Stock | Total |
| Share-based compensation expense | \$ 206 | \$ 750 | \$ 956 |
| Related income tax benefit | (72) | (263) | (335) |
| Net share-based compensation expense | <u>\$ 134</u> | <u>\$ 487</u> | <u>\$ 621</u> |

No share-based compensation expense was recorded prior to October 1, 2015.

Stock option activity, which represents outstanding CSWI awards, including conversion awards held by Capital Southwest employees is as follows:

| Fiscal Year Ended March 31, 2017 | | | | |
|----------------------------------|------------------|---------------------------------|------------------------------------|---|
| | Number of Shares | Weighted Average Exercise Price | Remaining Contractual Life (Years) | Aggregate Intrinsic Value (in Millions) |
| Outstanding at April 1, 2016 | 362,513 | \$ 24.53 | | |
| Granted | — | — | | |
| Exercised | (85,981) | 25.23 | | |
| Canceled | (24,897) | 23.11 | | |
| Outstanding at March 31, 2017 | 251,635 | \$ 24.44 | 6.9 | \$ 3.1 |
| Exercisable at March 31, 2017 | 170,412 | \$ 24.12 | 6.7 | \$ 2.1 |

| Fiscal Year Ended March 31, 2016 | | | | |
|----------------------------------|------------------|---------------------------------|------------------------------------|---|
| | Number of Shares | Weighted Average Exercise Price | Remaining Contractual Life (Years) | Aggregate Intrinsic Value (in Millions) |
| Outstanding at April 1, 2015 | — | \$ — | | |
| Granted | 368,487 | 24.40 | | |
| Exercised | (5,974) | 16.11 | | |
| Canceled | — | — | | |
| Outstanding at March 31, 2016 | 362,513 | \$ 24.53 | 8.0 | \$ 2.7 |
| Exercisable at March 31, 2016 | 131,161 | \$ 23.67 | 7.5 | \$ 1.1 |

At March 31, 2017, we had unrecognized compensation cost related to non-vested stock options of \$0.2 million, which will be amortized into net income over the remaining weighted average vesting period of 1.0 year. Other than options granted in conjunction with the Share Distribution to convert existing Capital Southwest options during Fiscal 2016 at the time of the spin-off, no options were granted during the fiscal years ended March 31, 2017 or 2016. The intrinsic value of options exercised during the fiscal year ended March 31, 2017 was \$0.6 million. Cash received for options exercised during the fiscal year ended March 31, 2017 was \$2.2 million, and the tax benefit received was \$0.1 million. The total fair value of stock options vested during the years ended March 31, 2017 and 2016 was \$0.7 million and \$0.5 million, respectively.

Restricted stock activity, which represents outstanding CSWI awards, including conversion awards held by Capital Southwest employees is as follows:

| | Fiscal Year Ended Number of Shares | Weighted Average Grant Date Fair Value |
|------------------------|------------------------------------|--|
| April 1, 2016 | 181,977 | 23.72 |
| Outstanding at Granted | 140,426 | \$ 28.92 |
| Vested | (87,643) | 20.74 |
| Canceled | (25,271) | 28.98 |
| March 31, 2017 | 209,489 | 28.20 |

During the restriction period, the holders of restricted shares are entitled to vote and receive dividends, except for restricted shares issued to adjust existing Capital Southwest restricted share awards under the Spin-Off Executive Compensation Plan (as discussed in Note 4). At March 31, 2017, we had unrecognized compensation cost related to unvested restricted shares of \$4.1 million, which will be amortized into net income over the remaining weighted average vesting period of 2.0 years. The total fair value of restricted shares vested during the years ended March 31, 2017 and 2016 was \$1.8 million and \$0.7 million, respectively.

Restricted shares granted during the years ended March 31, 2017 and 2016 includes 49,373 and 17,449 shares, respectively, with performance-based vesting provisions, and vesting ranges from 0-100% based on pre-defined performance targets with market

conditions. Performance-based restricted shares are earned upon the achievement of performance targets, and are payable in common shares. Compensation expense is recognized over a 36 month cliff vesting period based on the fair market value of our common shares on the date of grant.

6. DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

Accounts receivable, net consists of the following (in thousands):

| | March 31, | |
|---------------------------------------|-----------|-----------|
| | 2017 | 2016 |
| Accounts receivable trade | \$ 63,297 | \$ 53,423 |
| Other receivables | 1,998 | 422 |
| | 65,295 | 53,845 |
| Less: Allowance for doubtful accounts | (1,513) | (1,208) |
| Accounts receivable, net | 63,782 | 52,637 |

Inventories, net consist of the following (in thousands):

| | March 31, | |
|----------------------------|-----------|-----------|
| | 2017 | 2016 |
| Raw materials and supplies | \$ 21,717 | \$ 26,019 |
| Work in process | 6,272 | 5,432 |
| Finished goods | 29,538 | 26,087 |
| Total inventories | 57,527 | 57,538 |
| Less: LIFO reserve | (5,295) | (5,302) |
| Less: Obsolescence reserve | (1,831) | (602) |
| Inventories, net | \$ 50,401 | \$ 51,634 |

Property, plant and equipment, net, consist of the following (in thousands):

| | March 31, | |
|--|-----------|-----------|
| | 2017 | 2016 |
| Land and improvements | \$ 4,734 | \$ 4,739 |
| Buildings and improvements | 48,189 | 46,004 |
| Plant, office and laboratory equipment | 64,944 | 65,732 |
| Construction in progress | 3,347 | 6,917 |
| | 121,214 | 123,392 |
| Less: Accumulated depreciation | (57,317) | (59,035) |
| Property, plant and equipment, net | \$ 63,897 | \$ 64,357 |

Depreciation of property, plant and equipment was \$7.9 million, \$7.0 million and \$5.9 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively. Of these amounts, cost of revenues includes \$5.6 million, \$4.6 million and \$3.9 million, respectively.

Other assets consists of the following (in thousands):

| | March 31, | |
|--|-----------|----------|
| | 2017 | 2016 |
| Property held for investment (a) | \$ 9,208 | \$ 9,290 |
| Retirement assets in excess of benefit obligations | 2,954 | 2,063 |
| Other | 3,849 | 4,545 |
| Other assets | 16,011 | 15,898 |

(a) As of March 31, 2017 and 2016, \$6.2 million and \$6.2 million in assets were held for sale, respectively, in the "Other" segment.

Accrued and other current expenses consist of the following (in thousands):

| | March 31, | |
|---------------------------------------|-----------|-----------|
| | 2017 | 2016 |
| Compensation and related benefits | \$ 12,128 | \$ 12,502 |
| Rebates and marketing agreements | 2,726 | 1,976 |
| Non-income taxes | 817 | 1,378 |
| Income taxes payable | 106 | 939 |
| Other accrued expenses | 6,979 | 4,295 |
| Accrued and other current liabilities | \$ 22,756 | \$ 21,090 |

Other liabilities consists of the following (in thousands):

| | March 31, | |
|--------------------------|-----------|-----------|
| | 2017 | 2016 |
| Contingent consideration | \$ 6,390 | \$ 5,854 |
| Deferred income taxes | 3,090 | 2,516 |
| Other | 3,900 | 3,450 |
| Other liabilities | \$ 13,380 | \$ 11,820 |

7. LONG-TERM DEBT

Debt consists of the following (in thousands):

| | March 31, | |
|---|-----------|-----------|
| | 2017 | 2016 |
| Revolving Credit Facility, interest rate of 2.23% and 2.18%, respectively | \$ 60,625 | \$ 76,539 |
| Whitmore term loan, interest rate of 2.98% and 2.43%, respectively | 12,582 | 13,143 |
| Total debt | 73,207 | 89,682 |
| Less: Current portion | (561) | (561) |
| Long-term debt | \$ 72,646 | \$ 89,121 |

Revolving Credit Facility Agreement

On December 11, 2015, we entered into a five-year \$250.0 million revolving credit facility agreement ("Revolving Credit Facility"), with an additional \$50.0 million accordion feature, with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. Borrowings under this facility bear interest at the prime rate plus 0.25% or the 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 maturity. This facility is secured by substantially all of our assets. Borrowings under this facility were used as follows: (1) to repay the principal and interest outstanding under the RectorSeal Line of Credit and the Strathmore Acquisition Term Loan, (2) to pay fees incurred to enter into the agreement and (3) to acquire Leak Freeze. As of March 31, 2017 and 2016, we had \$60.6 million and \$76.5 million, respectively, in outstanding borrowings under this facility, which reduced our borrowing capacity to \$239.4 million and \$223.5 million, respectively, inclusive of the accordion feature. The

Revolving Credit Facility contains certain customary restrictive covenants, including a requirement to maintain a minimum fixed charge coverage of ratio of 1.25 to 1.00 and a maximum leverage ratio of Funded Debt to EBITDA (as defined in the agreement) of 3.00 to 1.00. Covenant compliance is tested quarterly and we were in compliance with all covenants as of March 31, 2017. Interest payments related to a portion of the outstanding balance under the Revolving Credit Facility are hedged under an interest rate swap agreement as described in Note 10.

Whitmore Term Loan

As of March 31, 2017, The Whitmore Manufacturing Company (one of our wholly-owned operating subsidiaries) had a secured term loan outstanding related to a warehouse and corporate office building and the remodel of an existing manufacturing and research and development facility. The term loan matures on July 31, 2029, with payments of \$140,000 due each quarter. Borrowings under the term loan bear interest at a variable annual rate equal to one month LIBOR plus 2.0%. As of March 31, 2017 and 2016, Whitmore had \$12.6 million and \$13.1 million, respectively, in outstanding borrowings under the term loan. Interest payments under the Whitmore term loan are hedged under an interest rate swap agreement as described in Note 10.

Strathmore Acquisition Term Loan

Whitmore had a \$70.0 million secured term loan outstanding to support the acquisition of Strathmore. The term loan was scheduled to mature on April 27, 2020 and was secured by the assets of Whitmore and Strathmore, excluding certain real property. Borrowings under the term loan bore interest at a variable annual rate equal to one month LIBOR plus 3.0%. We made quarterly payments of \$875,000 in both July 2015 and October 2015. The remaining principal balance of \$68.3 million was repaid on December 11, 2015 with borrowings under the Revolving Credit Facility, and the term loan was terminated.

Future Minimum Debt Payments

Future minimum debt payments are as follows for fiscal years ending March 31 (in thousands):

| | | |
|------------|----|---------------|
| 2018 | \$ | 561 |
| 2019 | | 561 |
| 2020 | | 561 |
| 2021 | | 61,186 |
| 2022 | | 561 |
| Thereafter | | 9,777 |
| Total | \$ | <u>73,207</u> |

Operating Leases

We have entered into non-cancelable operating leases with initial terms in excess of one year for manufacturing and office facilities. The leases expire at various times through 2026. Future minimum lease payments under these leases for fiscal years ending March 31 are as follows (in thousands):

| | | |
|------------|----|---------------|
| 2018 | \$ | 2,929 |
| 2019 | | 2,729 |
| 2020 | | 2,485 |
| 2021 | | 2,257 |
| 2022 | | 1,295 |
| Thereafter | | 4,136 |
| Total | \$ | <u>15,831</u> |

Rental expense under operating leases was \$3.0 million, \$2.6 million and \$2.4 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

8. EARNINGS PER SHARE

On September 30, 2015, 15.6 million CSWI common shares were distributed to Capital Southwest shareholders in connection with the Share Distribution. For comparative purposes, and to provide a more meaningful calculation for weighted average shares, this amount was assumed to be outstanding throughout all periods presented up to and including September 30, 2015 in the calculation of basic weighted average shares. In addition, for the dilutive weighted average share calculations, the dilutive securities

outstanding at September 30, 2015 were also assumed to be outstanding throughout all periods presented up to and including September 30, 2015.

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share for the fiscal years ended March 31, 2017, 2016 and 2015 (amounts in thousands, except per share data):

| | Fiscal Years Ended March 31, | | |
|---|------------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Net income for basic and diluted earnings per share | \$ 11,071 | \$ 25,471 | \$ 29,705 |
| Weighted average shares: | | | |
| Common stock | 15,555 | 15,443 | 15,441 |
| Participating securities | 218 | 182 | 142 |
| Denominator for basic earnings per common share | 15,773 | 15,625 | 15,583 |
| Potentially dilutive securities (a) | 66 | 50 | 41 |
| Denominator for diluted earnings per common share | 15,839 | 15,675 | 15,624 |
| Net earnings per common share: | | | |
| Basic | \$ 0.70 | \$ 1.63 | \$ 1.91 |
| Diluted | 0.70 | 1.62 | 1.90 |

(a) No shares were excluded as being anti-dilutive for the fiscal years ended March 31, 2017 or 2016. We have excluded 29,877 shares for the fiscal year ended March 31, 2015 as their effect would have been anti-dilutive.

9. SHAREHOLDERS' EQUITY

On November 11, 2016, we announced that our Board of Directors authorized a program to repurchase up to \$35.0 million of our common stock over the next two years. These shares may be repurchased 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 its common stock and general market conditions. The program may be limited or terminated at any time at our discretion without notice. To date, no shares have been repurchased under this program.

10. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

We enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. As of March 31, 2017 and 2016, we had \$43.2 million and \$46.4 million, respectively, of notional amount in outstanding designated interest rate swaps with third parties. All interest rate swaps are highly effective. At March 31, 2017, the maximum remaining length of any interest rate swap contract in place was approximately 12.3 years.

The fair value of interest rate swaps designated as hedging instruments are summarized below (in thousands):

| | March 31, | |
|------------------------------------|-----------|--------|
| | 2017 | 2016 |
| Current derivative liabilities | \$ 199 | \$ 511 |
| Non-current derivative liabilities | 420 | 1,366 |

The impact of changes in fair value of interest rate swaps is included in Note 16.

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

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

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

11. FAIR VALUE MEASUREMENTS

The fair value of interest rate swaps discussed in Note 10 are determined using Level II inputs. The carrying value of our debt, included in Note 7, approximates fair value as it bears interest at floating rates. The carrying amounts of other financial instruments (i.e., cash and cash equivalents, restricted cash, bank time deposits, accounts receivable, net, accounts payable) approximated their fair values at March 31, 2017 and 2016 due to their short-term nature.

The fair values of acquisition-related contingent payments are estimated using Level III inputs. The contingent payment related to the Strathmore acquisition utilized the Monte Carlo simulation methodology, and the most significant factor in the valuation is Strathmore's projected earnings before interest, taxes, depreciation and amortization. This contingent payment was reduced to \$0 during the quarter ended December 31, 2015 based on expected achievement of performance metrics. The contingent payment related to the acquisition of the Deacon assets utilized the weighted average probability method using forecasted sales. The most significant factor in the valuation is projected net revenues resulting from sales of Deacon products. The contingent payment related to the acquisition of assets from SureSeal utilized the weighted average probability method using forecasted sales and gross margin. The most significant factor in the valuation is projected net revenues resulting from sales of SureSeal products.

The following table sets forth the changes in fair value recognized within the selling, general and administrative expenses of our condensed consolidated statements of income (in millions):

| | Strathmore | Deacon | SureSeal | Total |
|---------------------------|------------|--------|----------|--------|
| Balance at April 1, 2015 | \$ — | \$ — | \$ 5.1 | \$ 5.1 |
| Acquisition of Strathmore | 2.0 | — | — | 2.0 |
| Acquisition of Deacon | — | 0.5 | — | 0.5 |
| Change due to accretion | — | — | 0.4 | 0.4 |
| Change in estimate | (2.0) | (0.1) | — | (2.1) |
| Balance at March 31, 2016 | — | 0.4 | 5.5 | 5.9 |
| Change due to accretion | — | — | 0.7 | 0.7 |
| Change in estimate | — | (0.4) | 0.2 | (0.2) |
| Balance at March 31, 2017 | \$ — | \$ — | \$ 6.4 | \$ 6.4 |

12. RETIREMENT PLANS

We maintain a frozen qualified defined benefit pension plan (the "Qualified Plan") that covers certain of our U.S. employees. The Qualified Plan was previously closed to employees hired or re-hired on or after January 1, 2015 and it was also amended to freeze benefit accruals and to modify certain ancillary benefits provided under the Qualified Plan effective as of September 30, 2015. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. A remeasurement was performed at September 30, 2015 to reflect the amendment of the Qualified Plan that froze participation and all future benefit accruals. The freeze of the Qualified Plan as of September 30, 2015 required the immediate recognition of a curtailment gain due to the accelerated recognition of all remaining prior service costs (benefits) and the decrease in the projected benefit obligation. The freeze of the Qualified Plan reduced net periodic pension expense for the remainder of fiscal year 2015 based on the remeasurement. The funding policy of the Qualified Plan is to contribute annual amounts that are currently deductible for federal income tax purposes. No contributions were made during the fiscal years ended March 31, 2017, 2016 or 2015.

We maintain a frozen unfunded retirement restoration plan (the "Restoration Plan") that is a non-qualified plan providing for the payment to participating employees, upon retirement, of the difference between the maximum annual payment permissible under the Qualified Plan pursuant to federal limitations and the amount that would otherwise have been payable under the Qualified Plan. As with the Qualified Plan, the Restoration Plan was closed to new participants on January 1, 2015 and amended to freeze benefit accruals and to modify certain ancillary benefits effective as of September 30, 2015.

We maintain a registered defined benefit pension plan (the "Canadian Plan") that covers all of our employees based at our facility in Alberta, Canada. Employees are eligible for membership in the plan following the completion of one year of employment. Benefits accrue to eligible employees based on years of service and an average of the highest 60 consecutive months of compensation during the last 10 consecutive years of employment. Benefit eligibility typically occurs upon the first day of the month following an eligible employee's reaching age 65, and plan benefits are typically paid monthly in advance for the lifetime of the participant.

The plans described above (collectively, the "Plans") are presented in aggregate as the impact of the Restoration Plan and Canadian Plan to our consolidated financial position and results of operations is not material.

The following are assumptions related to the Plans:

| | Year ended March 31, | | |
|---|----------------------|-------|-------|
| | 2017 | 2016 | 2015 |
| Assumptions used to determine benefit obligations: | | | |
| Discount rate | 4.23% | 4.50% | 4.25% |
| Rate of compensation increases | (a) | (a) | 5.00% |
| Assumptions used to determine net pension expense: | | | |
| Discount rate | 4.50% | 4.25% | 5.00% |
| Expected return on plan assets | 6.19% | 7.00% | 7.00% |
| Rate of compensation increases | (a) | (a) | 5.00% |
| (a) Rate of compensation increase is no longer relevant to the Qualified Plan or Restoration Plan due to freezing benefit accruals. The rate of compensation increase on the Canadian Plan is 3.0%. | | | |

The factors used in determination of these assumptions are described in Note 1.

Net pension (benefit) expense for the Plans was (in thousands):

| | March 31, | | |
|--|--------------|----------------|--------------|
| | 2017 | 2016 | 2015 |
| Service cost – benefits earned during the year | \$ 94 | \$ 2,069 | \$ 3,105 |
| Interest cost on projected benefit obligation | 2,637 | 2,739 | 2,579 |
| Expected return on assets | (3,723) | (3,226) | (2,406) |
| Net amortization and deferral | 6 | 9 | 121 |
| Curtailment benefit | — | (8,020) | — |
| Net pension (benefit) expense | <u>(986)</u> | <u>(6,429)</u> | <u>3,399</u> |

The estimated prior service costs and the estimated net loss for the Plans that will be amortized from accumulated other comprehensive loss into pension expense in the fiscal year ended March 31, 2018 is \$0 and \$24,000, respectively.

The following is a summary of the changes in the Plans' pension obligations (in thousands):

| | March 31, | |
|---|------------------|------------------|
| | 2017 | 2016 |
| Benefit obligation at beginning of year | \$ 60,561 | \$ 65,631 |
| Service cost | 94 | 2,069 |
| Interest cost | 2,637 | 2,739 |
| Actuarial loss | (2,091) | (2,285) |
| Benefits paid | (2,514) | (1,416) |
| Curtailment impact | — | (14,793) |
| Impact of Share Distribution (a) | — | 8,616 |
| Other adjustment (b) | 2,815 | — |
| Currency translation impact | (68) | — |
| Benefit obligation at end of year | <u>\$ 61,434</u> | <u>\$ 60,561</u> |
| Accumulated benefit obligation | <u>\$ 61,132</u> | <u>\$ 60,561</u> |

- (a) Additional obligations that were included relate to employees who transferred from Capital Southwest to CSWI upon completion of the Share Distribution.
- (b) Reflects amounts associated with the plan assets and obligations of the Canadian Plan that were previously omitted from aggregate pension disclosures due to immateriality..

The following is a reconciliation of the Plans' assets (in thousands):

| | March 31, | |
|--|------------------|------------------|
| | 2017 | 2016 |
| Fair value of plan assets at beginning of year | \$ 60,878 | \$ 43,087 |
| Actual return on plan assets | 1,523 | 578 |
| Benefits paid | (2,420) | (1,410) |
| Company contributions | 83 | — |
| Impact of Share Distribution (a) | — | 18,623 |
| Other adjustment (b) | 2,263 | — |
| Currency translation impact | (56) | — |
| Fair value of plan assets at end of year | <u>\$ 62,271</u> | <u>\$ 60,878</u> |

(a) Assets previously held by Capital Southwest were contributed to CSWI in conjunction with the Share Distribution.

(b) Reflects amounts associated with the plan assets and obligations of the Canadian Plan that were previously omitted from aggregate pension disclosures due to immateriality.

We made no contributions to the Qualified Plan in the fiscal year ended March 31, 2017 and do not expect to make any contributions in the fiscal year ended March 31, 2018. We contributed \$0.1 million to the Canadian Plan in the fiscal year ended March 31, 2017 and estimate that our contribution in the fiscal year ended March 31, 2018 will be \$0.1 million.

The following summarizes the net pension asset (liability) for the Plans (in thousands):

| | March 31, | |
|---------------------------|------------------|---------------|
| | 2017 | 2016 |
| Plan assets at fair value | \$ 62,271 | \$ 60,878 |
| Benefit obligation | (61,434) | (60,561) |
| Funded status | <u>\$ 837</u> | <u>\$ 317</u> |

The following summarizes amounts recognized in the balance sheet for the Plans (in thousands):

| | March 31, | |
|------------------------|------------------|---------------|
| | 2017 | 2016 |
| Noncurrent assets | \$ 2,955 | \$ 2,063 |
| Current liabilities | (654) | — |
| Noncurrent liabilities | (1,464) | (1,746) |
| Funded status | <u>\$ 837</u> | <u>\$ 317</u> |

The following table presents the change in accumulated other comprehensive loss attributable to the components of the net cost and the change in the benefit obligation (in thousands):

| | March 31, | |
|---|-------------------|-------------------|
| | 2017 | 2016 |
| Accumulated other comprehensive loss at beginning of year | \$ (1,229) | \$ (5,210) |
| Amortization of net loss | 17 | 20 |
| Amortization of prior service credit | 3 | (21) |
| Curtailment impact | — | 5,213 |
| Impact of Share Distribution (a) | — | (467) |
| Net loss arising during the year | (63) | (764) |
| Other adjustment (b) | (644) | — |
| Currency translation impact | 15 | — |
| Accumulated other comprehensive loss at end of year | <u>\$ (1,901)</u> | <u>\$ (1,229)</u> |

- (a) Deferred losses attributable to obligations related to employees who transferred from Capital Southwest to CSWI upon completion of the Share Distribution.
- (b) To recognize an adjustment, net of tax, to accumulated other comprehensive loss associated with the Canadian Plan.

Amounts recorded in accumulated other comprehensive loss consist of (in thousands):

| | March 31, | |
|--------------------------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Net prior service cost | \$ 45 | \$ — |
| Net loss | (1,946) | (1,229) |
| Accumulated other comprehensive loss | <u>\$ (1,901)</u> | <u>\$ (1,229)</u> |

The current target allocations for plan assets are 15% – 20% equity securities, 75% – 80% for fixed income securities and 0% – 5% for alternatives. The actual asset allocations for the Plans are as follows:

| Asset category | As of March 31, | |
|---------------------------|-----------------|-------------|
| | 2017 | 2016 |
| Equity securities | 17% | 35% |
| Fixed income securities | 78% | 59% |
| Other | 4% | 2% |
| Cash and cash equivalents | 1% | 4% |
| Total | <u>100%</u> | <u>100%</u> |

The Plans' assets, shown below, are presented at fair value, as described in Note 1. The fair values of our Plans' assets were (in thousands):

| Asset category | As of March 31, 2017 | | | | As of March 31, 2016 | | | |
|-----------------------------|----------------------|-----------------|------------------|-------------|----------------------|-----------------|------------------|-------------|
| | Total | I | II | III | Total | I | II | III |
| Equity securities (a) | \$ 10,850 | \$ 333 | \$ 10,517 | \$ — | \$ 21,183 | \$ 2,455 | \$ 18,728 | \$ — |
| Fixed income securities (b) | 48,312 | — | 48,312 | — | 35,719 | 3,979 | 31,740 | — |
| Other (c) | 2,760 | 493 | 2,267 | — | 1,474 | 935 | 539 | — |
| Cash and cash equivalents | 349 | 349 | — | — | 2,502 | 2,502 | — | — |
| Total | <u>\$ 62,271</u> | <u>\$ 1,175</u> | <u>\$ 61,096</u> | <u>\$ —</u> | <u>\$ 60,878</u> | <u>\$ 9,871</u> | <u>\$ 51,007</u> | <u>\$ —</u> |

- (a) This category includes investment in equity securities of large, medium and small companies and equity investments in foreign companies. Mutual funds included in this category are valued using the net asset value per unit as of the valuation date. These investments include shares of Capital Southwest common stock. As of March 31, 2017 and 2016, Capital Southwest common stock represented 0% and 1.2%, respectively, of the fair value of the plan assets and CSWI common stock represented 0% and 1.9%, respectively, of the fair value of the plan assets.
- (b) This category includes investments in investment grade fixed income instruments, primarily U.S. government obligations.
- (c) This category includes investments in commodity linked and real estate funds within the U.S. and investments in funds that invest in a combination of U.S. and Non-U.S. equity and Canadian fixed income securities.

The following table summarizes the expected cash benefit payments for the Plans for fiscal years ending March 31 (in millions):

| | | |
|------------|----|------|
| 2018 | \$ | 2.5 |
| 2019 | | 2.7 |
| 2020 | | 2.9 |
| 2021 | | 3.1 |
| 2022 | | 3.3 |
| Thereafter | | 17.9 |

Defined Contribution Plan

Effective October 1, 2015, we began to sponsor a defined contribution plan covering substantially all of our U.S. employees. Employees may contribute to this plan, and these contributions are matched by us up to 6.0% of eligible earnings. Additionally, we contribute 3.0% of eligible earnings to employees regardless of their level of participation in the plan, which is discretionary and subject to adjustment based on profitability. Effective January 1, 2017, the 3.0% discretionary contribution is contributed at the end of the calendar year. Contributions to the defined contribution plan were \$3.3 million and \$1.7 million for the years ended March 31, 2017 and March 31, 2016.

Employee Stock Ownership Plan

Prior to the Share Distribution, we sponsored two qualified, non-leveraged employee stock ownership plans ("ESOP") in which domestic employees were eligible to participate following the completion of one year of service. The ESOPs provided annual discretionary contributions of up to the maximum amount that is deductible under the Internal Revenue Code. Contributions to the ESOPs were invested in Capital Southwest common stock. A participant's interest in contributions to the ESOPs fully vests after three years of credited service or upon retirement, permanent disability (each, as defined in the plan document) or death. Effective with the Share Distribution, the two ESOP plans were merged and sponsorship was transferred to CSWI and made available to domestic employees of CSWI. Future contributions to the ESOP will be invested in CSWI common stock.

We recorded total contributions to the ESOPs of \$2.1 million, \$1.6 million and \$2.3 million during the fiscal years ended March 31, 2017, 2016 and 2015, respectively, based on performance in the prior fiscal year. During the fiscal year ended March 31, 2017, \$1.5 million was recorded to expense based on performance in the fiscal year ended March 31, 2017 and is expected to be contributed to the ESOP in the fiscal year ending March 31, 2018.

The ESOPs held 597,434 and 907,748 shares of Capital Southwest common stock as of March 31, 2017 and 2016, respectively. The ESOP held 660,518 and 907,748 shares of CSWI common stock as of March 31, 2017 and 2016, respectively.

13. INCOME TAXES

Income before income taxes was comprised of the following (in thousands):

| | Fiscal Years Ended March 31, | | |
|----------------------------|------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| U.S. Federal | \$ 18,910 | \$ 40,981 | \$ 39,511 |
| Foreign | 2,634 | 3,244 | 5,417 |
| Income before income taxes | <u>\$ 21,544</u> | <u>\$ 44,225</u> | <u>\$ 44,928</u> |

Income tax expense consists of the following (in thousands):

| | Current | Deferred | Total |
|-----------------------------------|------------------|-------------------|------------------|
| Fiscal year ended March 31, 2017: | | | |
| U.S. Federal | \$ 5,686 | \$ 2,469 | \$ 8,155 |
| State and local | 1,481 | 317 | 1,798 |
| Foreign | 1,201 | (681) | 520 |
| Provision for income taxes | <u>\$ 8,368</u> | <u>\$ 2,105</u> | <u>\$ 10,473</u> |
| Fiscal year ended March 31, 2016: | | | |
| U.S. Federal | \$ 9,210 | \$ 7,573 | \$ 16,783 |
| State and local | 1,368 | (136) | 1,232 |
| Foreign | 914 | (175) | 739 |
| Provision for income taxes | <u>\$ 11,492</u> | <u>\$ 7,262</u> | <u>\$ 18,754</u> |
| Fiscal year ended March 31, 2015: | | | |
| U.S. Federal | \$ 14,920 | \$ (1,848) | \$ 13,072 |
| State and local | 933 | 3 | 936 |
| Foreign | 1,637 | (422) | 1,215 |
| Provision for income taxes | <u>\$ 17,490</u> | <u>\$ (2,267)</u> | <u>\$ 15,223</u> |

Income tax expense differed from the amounts computed by applying the U.S. federal statutory income tax rate of 35% to income before income taxes as a result of the following (in thousands):

| | Fiscal Years Ended March 31, | | |
|---|------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Computed tax expense at statutory rate | 7,540 | 15,479 | 15,727 |
| Increase (reduction) in income taxes resulting from: | | | |
| FIN 48 liability | 1,593 | 1,277 | — |
| State and local income taxes, net of federal benefits | 1,319 | 1,055 | 569 |
| Permanent differences | 687 | 1,399 | 529 |
| Domestic production activity deduction | (545) | (420) | (817) |
| Foreign rate differential | (457) | (642) | (75) |
| Difference in U.S. rate | — | (107) | (45) |
| Other, net | 336 | 713 | (665) |
| Provision for income taxes | <u>\$ 10,473</u> | <u>\$ 18,754</u> | <u>\$ 15,223</u> |

The effective tax rates for the fiscal years ended March 31, 2017, 2016 and 2015 were 48.6%, 42.4% and 33.9%, respectively. The current year tax rate was higher, compared to the prior years, as a result of transaction costs incurred with the Share Distribution that are not deductible for tax purposes, an increase in the reserve for uncertain tax positions and an increase in state and local income taxes. Other items impacting the effective tax rate include foreign operations activities in countries with lower statutory rates and domestic operations activity in states with higher statutory rates.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31 are presented below (in thousands):

| | As of March 31, | |
|---|-----------------|------------|
| | 2017 | 2016 |
| Deferred tax assets: | | |
| Pension and other employee benefits | \$ 3,289 | \$ 38 |
| Accrued compensation | 2,621 | 1,712 |
| Inventory reserves | 1,876 | 2,319 |
| Net operating loss carryforwards | 565 | 160 |
| Accrued expenses | 2 | 370 |
| Other | 1,485 | 2,289 |
| Deferred tax assets | 9,838 | 6,888 |
| Valuation allowance | (107) | (107) |
| Deferred tax assets, net of valuation allowance | 9,731 | 6,781 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (6,719) | (5,819) |
| Goodwill and intangible assets | (5,313) | (2,567) |
| Deferred gain | (783) | (716) |
| Other | (6) | (195) |
| Deferred tax liabilities | (12,821) | (9,297) |
| Net deferred tax liabilities | \$ (3,090) | \$ (2,516) |

As of March 31, 2017 and 2016, we had \$0.6 million and \$0.2 million, respectively, in tax effected net operating loss carryforwards. Net operating loss carryforwards will expire in periods beyond the next 5 years. Our acquisition of Greco resulted in an ownership change under Section 382 of the Internal Revenue Code. We believe that the total tax effected net operating loss carryforward of Greco as of February 28, 2017, the date of acquisition, is less than \$0.5 million. The ability to utilize such net operating loss carryforward to offset post-acquisition net income of other members of the Company's U.S. consolidated group is limited under Section 382 of the Internal Revenue Code. For the fiscal year ended March 31, 2017, the annual limitation was prorated resulting in utilization of the net operating loss carryforward equal to one-twelfth of the annual limitation. No provision is made for U.S. income and foreign withholding taxes applicable to undistributed earnings of certain foreign entities since these earnings are considered to be permanently reinvested.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | March 31, | |
|---|-----------|--------|
| | 2017 | 2016 |
| Balance at beginning of year | \$ 900 | \$ — |
| Increases related to prior year tax positions | 916 | 900 |
| Increases related to current year tax positions | 730 | — |
| Settlement | (521) | — |
| Balance at end of year | \$ 2,025 | \$ 900 |

We have accrued interest and penalties on uncertain tax positions of \$0.2 million and \$0.2 million, respectively, for the year ended March 31, 2017 and \$0.2 million and \$0.2 million, respectively, for the year ended March 31, 2016. We did not recognize any interest and penalties for uncertain tax positions for the year ended March 31, 2015. We are currently not under examination for any of our U.S. federal income taxes.

14. RELATED PARTY TRANSACTIONS

We paid \$0.1 million in consulting fees for the fiscal year ended March 31, 2017 to a company owned by a member of our board of directors.

We paid \$0, \$0.2 million and \$0.5 million in management fees for the fiscal years ended March 31, 2017, 2016 and 2015 to a management company subsidiary of Capital Southwest for services rendered during each respective fiscal year. These amounts

are presented in selling, general and administrative expenses in the consolidated income statements, and payments ceased in connection with the Share Distribution.

We paid \$0, \$0.3 million and \$8.3 million in dividends to Capital Southwest during the fiscal years ended March 31, 2017, 2016 and 2015, respectively, as Capital Southwest was our sole shareholder until the Share Distribution.

As of March 31, 2017 and 2016, 597,434 and 907,748 shares, respectively, of Capital Southwest stock were held under the ESOP and no shares of Capital Southwest stock were held in the Qualified Plan.

Tax Matters Agreement – We entered into a tax matters agreement with Capital Southwest (the “Tax Matters Agreement”). The Tax Matters Agreement generally governs our and Capital Southwest’s respective rights, responsibilities and obligations with respect to taxes in connection with the Share Distribution. The Tax Matters Agreement provides that we will be liable for taxes incurred by Capital Southwest as a result of our taking or failing to take certain actions that result in the Share Distribution failing to meet the requirements of a tax-free distribution under the Internal Revenue Code. The Tax Matters Agreement also restricts our and Capital Southwest’s ability to take actions that could cause the Share Distribution to fail to meet the requirements of a tax-free distribution under the Code. These restrictions may prevent us and Capital Southwest from entering into transactions that might be advantageous to us or our stockholders. The term of the Tax Matters Agreement is perpetual, unless the agreement is terminated by mutual consent of both parties.

Employee Matters Agreement – We entered into an employee matters agreement with Capital Southwest prior to the Distribution Date (the “Employee Matters Agreement”). The Employee Matters Agreement allocates liabilities and responsibilities between us and Capital Southwest relating to employee compensation and benefit plans and programs, including the treatment of certain employment agreements, outstanding annual and long-term incentive awards, and health and welfare benefit obligations and provide for the cooperation between us and Capital Southwest in the sharing of employee information.

In general, following the Share Distribution, we will be responsible for all employment and benefit-related obligations and liabilities related to those individuals employed by Capital Southwest or one of the contributed businesses prior to the Share Distribution and whose employment was transferred to us in connection with the Share Distribution. In general, Capital Southwest will be responsible for any employment and benefit-related obligations and liabilities of any employees who continue to be employees of Capital Southwest following the Share Distribution. The term of the Employee Matters Agreement is perpetual, unless the agreement is terminated by mutual consent of both parties.

15. CONTINGENCIES

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

16. OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Fiscal Years Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2017 | 2016 |
| Currency translation adjustments: | | |
| Balance at beginning of period | \$ (5,248) | \$ (3,877) |
| Adjustments for foreign currency translation | (2,884) | (1,371) |
| Balance at end of period | <u>\$ (8,132)</u> | <u>\$ (5,248)</u> |
| Interest rate swaps: | | |
| Balance at beginning of period | \$ (1,221) | \$ (1,206) |
| Unrealized gains (losses), net of taxes of \$(261) and \$219, respectively (a) | 485 | (407) |
| Reclassification of losses included in interest expense, net of taxes of \$(180) and \$(211), respectively | 334 | 392 |
| Other comprehensive income (loss) | <u>819</u> | <u>(15)</u> |
| Balance at end of period | <u>\$ (402)</u> | <u>\$ (1,221)</u> |
| Defined benefit plans: | | |
| Balance at beginning of period | \$ (1,229) | \$ (5,210) |
| Amortization of net prior service benefit, net of taxes of \$(2) and \$11, respectively (b) | 3 | (21) |
| Amortization of net loss, net of taxes of \$(7) and \$(11), respectively (b) | 17 | 20 |
| Net loss arising during the year, net of tax of \$42 and \$411, respectively | (63) | (764) |
| Impact of Share Distribution, net of tax of \$0 and \$251, respectively | — | (467) |
| Curtailment, net of taxes of \$0 and \$(2,807), respectively | — | 5,213 |
| Other adjustment, net of taxes of \$276 and \$0, respectively (c) | (644) | — |
| Currency translation impact | 15 | — |
| Other comprehensive (loss) income | <u>(672)</u> | <u>3,981</u> |
| Balance at end of period | <u>\$ (1,901)</u> | <u>\$ (1,229)</u> |

- (a) Unrealized gains (losses) are reclassified to earnings as underlying cash interest payments are made. We expect to recognize a loss of \$0.3 million, net of deferred taxes, over the next twelve months related to designated cash flow hedges based on their fair values at March 31, 2017.
- (b) Amortization of prior service costs and actuarial losses out of accumulated other comprehensive loss are included in the computation of net periodic pension expenses. See Note 12 for additional information.
- (c) To recognize an adjustment, net of tax, to accumulated other comprehensive income associated with the Canadian Plan.

17. SEGMENTS

As described in Note 1, we conduct our operations through three business segments:

- Industrial Products;
- Coatings, Sealants & Adhesives; and
- Specialty Chemicals.

The following is a summary of the financial information of our reporting segments reconciled to the amounts reported in the consolidated financial statements (in thousands).

Year ended March 31, 2017

| | Industrial Products | Coatings, Sealants and Adhesives | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|----------------------------|---|----------------------------|---------------------------------------|-------------------------------|--------------|
| Revenues, net | \$ 158,654 | \$ 96,869 | \$ 71,469 | \$ 326,992 | \$ 92 | \$ 327,084 |
| Operating income | 32,893 | 851 | 2,012 | 35,756 | (13,275) | 22,481 |
| Depreciation and amortization | 6,963 | 3,647 | 4,812 | 15,422 | 374 | 15,796 |

Year ended March 31, 2016

| | Industrial Products | Coatings, Sealants and Adhesives | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|----------------------------|---|----------------------------|---------------------------------------|-------------------------------|--------------|
| Revenues, net | \$ 138,594 | \$ 106,035 | \$ 74,930 | \$ 319,559 | \$ 272 | \$ 319,831 |
| Operating income | 31,075 | 10,911 | 12,490 | 54,476 | (6,990) | 47,486 |
| Depreciation and amortization | 6,530 | 3,819 | 3,744 | 14,093 | 68 | 14,161 |

Year ended March 31, 2015

| | Industrial Products | Coatings, Sealants and Adhesives | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|----------------------------|---|----------------------------|---------------------------------------|-------------------------------|--------------|
| Revenues, net | \$ 118,422 | \$ 52,119 | \$ 89,738 | \$ 260,279 | \$ 1,555 | \$ 261,834 |
| Operating income | 19,711 | 11,420 | 13,016 | 44,147 | (113) | 44,034 |
| Depreciation and amortization | 6,108 | 1,117 | 3,290 | 10,515 | — | 10,515 |

During the year ended March 31, 2017, we recorded restructuring charges of \$0.4 million and \$4.3 million in our Industrial Products and Coatings, Sealants & Adhesives segments, respectively. During the year ending March 31, 2018, we expect to record additional restructuring charges of \$0.3 million and \$0 in our Industrial Products and Coatings, Sealants & Adhesives segments, respectively.

During the year ended March 31, 2016, we recorded pension plan curtailment benefits of \$3.2 million, \$1.4 million and \$3.4 million in our Industrial Products, Coatings, Sealants & Adhesives segments and Specialty Chemicals segments, respectively.

Total Assets

| | Industrial Products | Coatings, Sealants and Adhesives | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|----------------|----------------------------|---|----------------------------|---------------------------------------|-------------------------------|--------------|
| March 31, 2017 | \$ 171,147 | \$ 110,724 | \$ 96,510 | \$ 378,381 | \$ 19,283 | \$ 397,664 |
| March 31, 2016 | 154,583 | 128,886 | 97,539 | 381,008 | 11,252 | 392,260 |
| March 31, 2015 | 137,148 | 42,010 | 95,389 | 274,547 | 11,974 | 286,521 |

Geographic information – We attribute sales to different geographic areas based on the destination of the product or service delivery. Long-lived assets are classified based on the geographic area in which the assets are located and exclude deferred taxes. No individual country, except for the U.S., accounted for more than 10% of consolidated net revenues or total long-lived assets.

Sales and long-lived assets by geographic area are as follows (in thousands, except percent data):

| | For the Years Ended March 31, | | | | | |
|---------------|--------------------------------------|--------|-------------|--------|-------------|--------|
| | 2017 | | 2016 | | 2015 | |
| U.S. | \$ 279,281 | 85.4% | \$ 257,941 | 80.6% | \$ 197,944 | 75.6% |
| Non-U.S. (a) | 47,803 | 14.6% | 61,890 | 19.4% | 63,890 | 24.4% |
| Revenues, net | \$ 327,084 | 100.0% | \$ 319,831 | 100.0% | \$ 261,834 | 100.0% |

(a) No individual country within this group represents 10% or more of consolidated totals for any period presented.

| | As of March 31, | | | | | |
|-----------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | 2017 | | 2016 | | 2015 | |
| U.S. | \$ 223,855 | 89.1% | \$ 220,878 | 94.4% | \$ 134,117 | 90.3% |
| Non-U.S. | 27,526 | 10.9% | 12,990 | 5.6% | 14,457 | 9.7% |
| Long-lived assets (a) | <u>\$ 251,381</u> | <u>100.0%</u> | <u>\$ 233,868</u> | <u>100.0%</u> | <u>\$ 148,574</u> | <u>100.0%</u> |

(a) Long-lived assets consists primarily of property, plant and equipment, intangible assets, goodwill and other assets, net of deferred taxes.

Major customer information – We have a large number of customers across our locations and do not believe that we have sales to any individual customer that represent 10% or more of consolidated net revenues for any of the fiscal years presented.

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents a summary of the unaudited quarterly data for the fiscal years ending March 31, 2017 and 2016 (amounts in millions, except per share data):

| Quarter | Fiscal Year ended March 31, 2017 | | | |
|---------------------------------------|----------------------------------|---------|---------|---------|
| | 4th | 3rd | 2nd | 1st |
| Revenues, net | \$ 87.4 | \$ 75.5 | \$ 80.1 | \$ 84.1 |
| Gross profit | 31.0 | 28.9 | 35.7 | 38.2 |
| Income before income taxes | 4.0 | 3.3 | 7.0 | 7.2 |
| Net income | 2.8 | 0.4 | 3.8 | 4.1 |
| Net earnings per common share (a)(b): | | | | |
| Basic | \$ 0.17 | \$ 0.03 | \$ 0.24 | \$ 0.26 |
| Diluted | 0.17 | 0.03 | 0.24 | 0.26 |

| Quarter | Fiscal Year ended March 31, 2016 | | | |
|---------------------------------------|----------------------------------|---------|---------|---------|
| | 4th | 3rd | 2nd | 1st |
| Revenues, net | \$ 76.3 | \$ 70.9 | \$ 83.7 | \$ 88.9 |
| Gross profit | 34.6 | 32.1 | 40.8 | 40.4 |
| Income before income taxes | 6.0 | 4.8 | 19.8 | 13.6 |
| Net income | 1.8 | 2.0 | 13.0 | 8.7 |
| Net earnings per common share (a)(b): | | | | |
| Basic | \$ 0.12 | \$ 0.13 | \$ 0.83 | \$ 0.56 |
| Diluted | 0.12 | 0.13 | 0.83 | 0.55 |

(a) Net earnings per common share is computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in weighted average quarterly shares outstanding.

(b) On September 30, 2015, 15.6 million CSWI common shares were distributed to Capital Southwest shareholders in connection with the Share Distribution. For comparative purposes, and to provide a more meaningful calculation for weighted average shares, this amount was assumed to be outstanding throughout all periods presented up to and including September 30, 2015 in the calculation of basic weighted average shares. In addition, for the dilutive weighted average share calculations, the dilutive securities outstanding at September 30, 2015 were also assumed to be outstanding throughout all periods presented up to and including September 30, 2015.

Significant pre-tax adjustments recorded in the quarter ended March 31, 2017 included restructuring (\$0.9 million), implementation costs related to design of our internal controls framework (\$0.5 million), transaction costs incurred related to our acquisition of Greco (\$0.4 million) and trademark impairments (\$0.2 million).

Significant pre-tax adjustments recorded in the quarter ended March 31, 2016 included organizational start-up costs incurred in connection with the Share Distribution (\$0.6 million).

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

None

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are designed to ensure that the information, which we are required to disclose in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the United States ("U.S.") Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Annual Report on Form 10-K ("Annual Report") for the year ended March 31, 2017, our management, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2017 as required by Rule 13a-15(b) under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2017.

Management's Report on Internal Control Over Financial Reporting

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Internal control over financial reporting includes policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, our management conducted an assessment of our internal control over financial reporting as of March 31, 2017, based on the criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that as of March 31, 2017, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of March 31, 2017, has been audited by Grant Thornton LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the year ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CSW Industrials, Inc.

We have audited the internal control over financial reporting of CSW Industrials, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of March 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended March 31, 2017, and our report dated June 14, 2017 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Dallas, Texas
June 14, 2017

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2017.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2017.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2017.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2017.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2017.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Annual Report on Form 10-K:

- | | |
|---|----|
| (1) <i>Consolidated Financial Statements</i> | |
| Report of Independent Registered Public Accounting Firm | 34 |
| CSW Industrials, Inc. Consolidated Financial Statements: | |
| Consolidated Balance Sheets at March 31, 2017 and 2016 | 35 |
| For each of the three years in the period ended March 31, 2017: | |
| Consolidated Statements of Income | 36 |
| Consolidated Statements of Comprehensive Income | 36 |
| Consolidated Statements of Equity | 37 |
| Consolidated Statements of Cash Flows | 38 |
| Notes to Consolidated Financial Statements | 39 |
| (2) <i>Financial Statement Schedules</i> | |
| None. | |
| (3) <i>Exhibits</i> | |

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:

Date: June 14, 2017

CSW INDUSTRIALS, INC.

By:

/s/ Joseph B. Armes

Joseph B. Armes

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <u>Name</u> | <u>Title</u> | <u>Date</u> |
|--|---|---------------|
| <u>/s/ Joseph B. Armes</u> Joseph B. Armes | Chief Executive Officer (Principal Executive Officer) | June 14, 2017 |
| <u>/s/ Gregory W. Branning</u> Greggory W. Branning | Chief Financial Officer (Principal Financial and Accounting Officer) | June 14, 2017 |
| <u>/s/ Michael R. Gambrell</u> Michael R. Gambrell | Director | June 14, 2017 |
| <u>/s/ Terry L. Johnston</u> Terry L. Johnston | Director | June 14, 2017 |
| <u>/s/ Linda A. Livingstone</u> Linda A. Livingstone, Ph.D. | Director | June 14, 2017 |
| <u>/s/ William F. Quinn</u> William F. Quinn | Director | June 14, 2017 |
| <u>/s/ Robert M. Swartz</u> Robert M. Swartz | Director | June 14, 2017 |
| <u>/s/ J. Kent Sweezey</u> J. Kent Sweezey | Director | June 14, 2017 |

Exhibit Index

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| 2.1 | Distribution Agreement (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10, filed on September 9, 2015) |
| 2.2 | Asset Purchase Agreement by and among Strathmore Holdings, LLC, Strathmore Products, Inc., Strathmore Products of Longview, LLC, Strathmore Products of Houston, LLC, SP Waller, LLC, Eric T. Burr and William M. Udovich and the Whitmore Manufacturing Company, effective as of April 1, 2015 (incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form 10, filed on July 21, 2015) |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10, filed on September 9, 2015) |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10, filed on September 9, 2015) |
| 10.1 | Tax Matters Agreement dated as of September 8, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10, filed on September 9, 2015) |
| 10.2 | Amended and Restated Employment Matters Agreement, dated as of September 14, 2015, by and between Capital Southwest Corporation and CSW Industrials, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on November 16, 2015) |
| 10.3 | Credit Agreement, dated as of December 11, 2015, among CSW Industrials, Inc., CSW Industrials Holdings, Inc. and The Whitmore Manufacturing Company and the lenders identified therein. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 17, 2015) |
| 10.4 | Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.5 to Amendment No. 3 to the Company's Registration Statement on Form 10, filed on August 28, 2015) |
| 10.5 | Amended and Restated CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on December 12, 2016) + |
| 10.6 | Employment agreement by and between CSW Industrials, Inc. and Joseph Armes, dated October 1, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.7 | Form of Employee Restricted Stock Award Agreement (time vesting) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.8 | Form of Employee Restricted Stock Award Agreement (performance vesting) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.9* | Form of Employee Performance Share Award Agreement + |
| 10.10 | Form of Non-Employee Director Restricted Stock Award (time vesting) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.11 | Form of Incentive Stock Option Right Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.12 | Form of Non-Qualified Stock Option Right Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.13 | Form of Restricted Share Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.14 | Form of Non-Qualified Stock Option Right Award Agreement (executive compensation plan – replacement award agreement) (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.15 | Form of Restricted Share Award Agreement (executive compensation plan – replacement award agreement) (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.16 | Consulting Agreement between CSW Industrials, Inc. and GamCo, LLC (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K, filed on June 8, 2016) + |
| 10.17 | CSW Industrials, Inc. Executive Change in Control and Severance Benefit Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 12, 2016) + |

| EXHIBIT NUMBER | DESCRIPTION |
|---------------------------|---|
| 10.18 | Agreement dated July 17, 2016 by and among CSW Industrials, Inc, and the entities and natural persons listed thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 18, 2016) |
| 10.19 | Employment Release Agreement between CSW Industrials, Inc. and Kelly Tacke (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 15, 2016) + |
| 21.1* | List of subsidiaries of the Company |
| 23.1* | Consent of Grant Thornton LLP |
| 31.1* | Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 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 |

* Filed herewith

** Furnished herewith

+ Management contracts and compensatory plans required to be filed as exhibits to this Annual Report on Form 10-K.

**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 Annual Report on Form 10-K for the fiscal year ended March 31, 2017 of CSW Industrials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2017

/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, Gregory W. Branning, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended March 31, 2017 of CSW Industrials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2017

/s/ Gregory W. Branning
Gregory W. Branning
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 Annual Report on Form 10-K of the Company for the fiscal year ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Annual 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 Annual Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: June 14, 2017

/s/ Joseph B. Armes

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

(1) the Annual Report on Form 10-K of the Company for the fiscal year ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Annual 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 Annual Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: June 14, 2017

/s/ Gregory W. Branning

Greggory W. Branning

Chief Financial Officer

(Principal Financial Officer)

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Corporate Information

BOARD OF DIRECTORS

Joseph B. Armes
Chairman & Chief Executive Officer

Michael R. Gambrell
Director

Terry L. Johnston
Director

Linda A. Livingstone, Ph.D
Director

William F. Quinn
Director

Robert M. Swartz
Lead Independent Director

J. Kent Sweezey
Director

EXECUTIVE OFFICERS

Joseph B. Armes
Chairman & Chief Executive Officer

Christopher J. Mudd
President & Chief Operating Officer

Greggory W. Branning
*Executive Vice President
& Chief Financial Officer*

Luke E. Alverson
*Sr. Vice President,
General Counsel & Secretary*

TRANSFER AGENT

American Stock Transfer
& Trust Company, LLC
Brooklyn, New York
T (800) 937-5449
www.amstock.com

EXCHANGE

Listed on NASDAQ

TICKER SYMBOL

CSWI

INDEPENDENT PUBLIC ACCOUNTANTS

Grant Thornton LLP
Dallas, Texas

CONTACT INFORMATION

CSW Industrials, Inc.
5420 Lyndon B. Johnson Freeway
Suite 500
Dallas, Texas 75240
T (214) 884-3777
www.cswindustrials.com

Annual Meeting

August 15, 2017 | 9:00AM

Hilton Dallas Lincoln Centre
5410 Lyndon B. Johnson Freeway
Dallas, Texas 75240
T (214) 884-3777



CSW
INDUSTRIALS

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