

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 001-37454

---

**CSW INDUSTRIALS, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**5400 Lyndon B. Johnson Freeway, Suite 1300, Dallas, Texas**  
(Address of principal executive offices)

**75240**  
(Zip Code)

**(972) 233-8242**  
(Registrant's telephone number, including area code)

---

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

As of February 8, 2016, there were 15,589,306 shares of the issuer's common stock outstanding.

---

---

CSW INDUSTRIALS, INC.  
FORM 10-Q

TABLE OF CONTENTS

	<u>Page No.</u>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income – Three Months Ended December 31, 2015 and 2014 (unaudited)</u>	1
<u>Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income – Nine Months Ended December 31, 2015 and 2014 (unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets – December 31, 2015 and March 31, 2015 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Equity – December 31, 2015 and March 31, 2015 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended December 31, 2015 and 2014 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	24
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	33
<b><u>Item 4. Controls and Procedures</u></b>	34
<b><u>PART II – OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	35
<b><u>Item 1A. Risk Factors</u></b>	35
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	35
<b><u>Item 3. Defaults upon Senior Securities</u></b>	35
<b><u>Item 4. Mine Safety Disclosures</u></b>	35
<b><u>Item 5. Other Information</u></b>	35
<b><u>Item 6. Exhibits</u></b>	35
<b><u>SIGNATURES</u></b>	36
EX-10.1	
EX-10.2	
EX-10.3	
EX-10.4	
EX-10.5	
EX-10.6	
EX-10.7	
EX-10.8	
EX-10.9	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

**PART I — FINANCIAL INFORMATION**  
**CSW INDUSTRIALS, INC.**

**Item 1. Financial Statements.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

(Amounts in thousands, except per share amounts)	<b>Three Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Revenues, net	\$ 70,918	\$ 60,871
Cost of revenues	(38,769)	(32,175)
Gross profit	32,149	28,696
General and administrative expenses	(13,815)	(7,975)
Selling and distribution expenses	(11,365)	(9,646)
Research and development expenses	(1,346)	(1,353)
Operating income	5,623	9,722
Interest expense, net	(793)	(123)
Other (expense) income, net	(7)	152
Income before income taxes	4,823	9,751
Provision for income taxes	(2,825)	(3,365)
Net income	\$ 1,998	\$ 6,386
Net earnings per common share:		
Basic	\$ 0.13	\$ 0.41
Diluted	0.13	0.41

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

(Amounts in thousands)	<b>Three Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 1,998	\$ 6,386
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$456 and \$1,285, respectively	(847)	(2,386)
Cash flow hedging activity, net of taxes of \$(156)	290	—
Pension and other postretirement effects, net of taxes of \$(3)	7	—
Other comprehensive loss	(550)	(2,386)
Comprehensive income	\$ 1,448	\$ 4,000

See accompanying notes to condensed consolidated financial statements.

## CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Amounts in thousands, except per share amounts)	Nine Months Ended December 31,	
	2015	2014
Revenues, net	\$ 243,572	\$ 197,763
Cost of revenues	(130,135)	(102,094)
Gross profit	113,437	95,669
General and administrative expenses	(36,069)	(24,019)
Selling and distribution expenses	(33,443)	(31,123)
Research and development expenses	(3,235)	(4,251)
Impairment loss	—	(662)
Operating income	40,690	35,614
Interest expense, net	(2,292)	(469)
Other (expense) income, net	(185)	1,640
Income before income taxes	38,213	36,785
Provision for income taxes	(14,602)	(12,413)
Net income	\$ 23,611	\$ 24,372
Net earnings per common share:		
Basic	\$ 1.51	\$ 1.56
Diluted	1.51	1.56

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(Amounts in thousands)	Nine Months Ended December 31,	
	2015	2014
Net income	\$ 23,611	\$ 24,372
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$1,111 and \$1,606, respectively	(2,064)	(2,983)
Cash flow hedging activity, net of taxes of \$(272)	505	—
Pension and other postretirement effects, net of taxes of \$(2,614) and \$73, respectively	4,855	(146)
Other comprehensive income (loss)	3,296	(3,129)
Comprehensive income	\$ 26,907	\$ 21,243

See accompanying notes to condensed consolidated financial statements.

## CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Amounts in thousands, except per share amounts)	December 31, 2015	March 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51,052	\$ 20,448
Restricted cash	—	2,385
Bank time deposits	5,498	9,248
Accounts receivable, net of allowance of \$1,272 and \$1,692, respectively	46,164	48,941
Inventories, net	54,684	47,175
Prepaid expenses and other current assets	9,930	6,812
Total current assets	167,328	135,009
Property, plant and equipment, net of accumulated depreciation of \$57,368 and \$52,954, respectively	61,942	56,837
Goodwill	73,309	40,645
Intangible assets, net	85,742	40,997
Other assets	20,248	13,033
Total assets	<u>\$ 408,569</u>	<u>\$286,521</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,285	\$ 8,960
Accrued and other current liabilities	18,655	16,001
Current portion of long-term debt	561	13,561
Total current liabilities	29,501	38,522
Long-term debt	105,762	13,143
Retirement benefits payable	1,669	22,545
Other long-term liabilities	15,927	7,710
Total liabilities	152,859	81,920
Equity:		
Common shares, \$0.01 par value	156	12
Shares authorized – 50,000		
Shares issued – 15,583		
Preferred shares, \$0.01 par value	—	1,000
Shares authorized – 10,000		
Shares issued – 0		
Additional paid-in capital	30,456	7,810
Treasury shares, at cost	—	(2,712)
Retained earnings	232,095	208,784
Accumulated other comprehensive loss	(6,997)	(10,293)
Total equity	255,710	204,601
Total liabilities and equity	<u>\$ 408,569</u>	<u>\$286,521</u>

See accompanying notes to condensed consolidated financial statements.

## CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
(Unaudited)

(Amounts in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Investment of Capital Southwest	Accumulated Other Comprehen- sive Loss	Total Equity
<b>Balance at March 31, 2015</b>	\$ —	\$ —	\$208,784	\$ 6,110	\$ (10,293)	\$ 204,601
Stock-based and other executive compensation	—	1,398	—	—	—	1,398
Net income	—	—	23,611	—	—	23,611
Dividends	—	—	(300)	—	—	(300)
Other comprehensive income, net of tax	—	—	—	—	3,296	3,296
Effects of Share Distribution and contributions from Capital Southwest	156	29,058	—	(6,110)	—	23,104
<b>Balance at December 31, 2015</b>	<u>\$ 156</u>	<u>\$ 30,456</u>	<u>\$232,095</u>	<u>\$ —</u>	<u>\$ (6,997)</u>	<u>\$ 255,710</u>

See accompanying notes to condensed consolidated financial statements.

## CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Amounts in thousands)	Nine Months Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 23,611	\$ 24,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,042	4,457
Amortization of intangible assets	4,896	3,342
Stock-based and other executive compensation	1,398	—
Acquisition-related non-cash gain	(1,950)	—
Net (gain) loss on sales of property, plant and equipment	33	(1,582)
Pension plan curtailment benefit	(8,020)	—
Impairment of assets	—	662
Net deferred taxes	4,361	673
Changes in operating assets and liabilities:		
Accounts receivable, net	9,612	7,475
Inventories, net	1,484	(4,707)
Prepaid expenses and other current assets	(446)	(545)
Other assets	(89)	64
Accounts payable and accrued and other current liabilities	(411)	(1,786)
Retirement benefits payable and other liabilities	(1,039)	(357)
Net cash provided by operating activities	<u>38,482</u>	<u>32,068</u>
Cash flows from investing activities:		
Capital expenditures	(6,024)	(8,364)
Proceeds from sale of assets held for investment	—	3,494
Proceeds from sale of assets	20	6,362
Net change in bank time deposits and restricted cash	5,805	(423)
Cash paid for acquisitions	(97,732)	(4,524)
Net cash used in investing activities	<u>(97,931)</u>	<u>(3,455)</u>
Cash flows from financing activities:		
Borrowings on lines of credit	81,000	7,581
Repayments on lines of credit	(94,421)	(29,733)
Borrowings on revolving credit agreement	93,040	—
Payments of deferred loan costs	(1,073)	—
Cash contribution from Capital Southwest	13,000	—
Dividends paid	(300)	(660)
Net cash provided by (used in) financing activities	<u>91,246</u>	<u>(22,812)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,193)	(623)
Net increase in cash and cash equivalents	30,604	5,178
Cash and cash equivalents, beginning of period	20,448	15,411
Cash and cash equivalents, end of period	<u>\$ 51,052</u>	<u>\$ 20,589</u>
Supplemental non-cash disclosure:		
Pension plan assets contributed by Capital Southwest	\$ 10,357	\$ —

See accompanying notes to condensed consolidated financial statements.

**CSW INDUSTRIALS, INC.**  
**(Unaudited)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES**

CSW Industrials, Inc. (“CSWI,” the “Company,” “we,” “our” or “us”) is a diversified industrial growth company with well-established, scalable platforms and deep domain expertise across three segments: Industrial Products; Coatings, Sealants and Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilating and air conditioning (“HVAC”) and refrigeration applications, coatings and sealants and high performance specialty lubricants. Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. Our diverse product portfolio includes more than 100 highly respected industrial brands including RectorSeal No. 5™ thread sealants, KOPR KOTE™ anti-seize lubricants, Safe-T-Switch® condensate overflow shutoff devices, KATS® coatings, Air Sentry® breathers, and RailPlex® tank car coatings. Additionally, we recently acquired Deacon® high temperature sealants and AC Leak Freeze® to stop refrigerant leaks. 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 December 2, 2014, Capital Southwest Corporation (“Capital Southwest”) announced its plan to spin-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”). The Share Distribution occurred on September 30, 2015, and CSWI became an independent, publicly traded company. Prior to the Share Distribution, Capital Southwest contributed to CSWI all of the outstanding capital stock of The RectorSeal Corporation (“RectorSeal”), The Whitmore Manufacturing Company (“Whitmore”), Jet-Lube, Inc. (“Jet-Lube”), Strathmore Holdings, LLC. (“Strathmore”), Balco, Inc. (“Balco”), Smoke Guard, Inc. (“Smoke Guard”) and CapStar Holdings Corporation (“CapStar”), \$13.0 million in cash and pension assets of \$10.4 million (CSWI assumed both the pension plan assets and obligations associated with the defined benefit pension plan), and net of \$0.3 million in equity issuance costs. The following is a brief description of each business:

- *RectorSeal* formulates and manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations. RectorSeal also makes specialty tools for tradesmen and innovative systems for containing flames and smoke from building fires.
- *Whitmore* manufactures high performance, specialty lubricants for heavy equipment used in surface mining, railroad and other industries. Whitmore also manufactures lubrication equipment, specifically for rail applications, and lubrication-centric reliability solutions for a wide variety of industries, and produces water-based coatings for the automotive and primary metals industries.
- *Jet-Lube* is a world leader in anti-seize compounds, thread sealants and specialty lubrication products and greases for the energy industry.
- *Strathmore* is engaged in the manufacturing of paint for sale to industrial clients and is a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds.
- *Balco* is engaged in the fabrication of aluminum and plastic extrusions and other materials related to safety, slip resistance and emergency egress.
- *Smoke Guard* manufactures certified custom safety products for the commercial construction market and other markets requiring smoke and fire protection.
- *CapStar* acquires, holds and manages certain real estate and other assets. The operations of CapStar are not material.

***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 the businesses discussed above, 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 Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015 (“Quarterly Report”) represent the condensed consolidated financial statements of the businesses discussed above. As these businesses were under common control of Capital Southwest for all periods prior to



## [Table of Contents](#)

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 these businesses. Equity accounts presented in the balance sheet as of December 31, 2015 represent the equity of CSWI. The condensed 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 condensed consolidated financial statements include all revenues, costs, assets and liabilities directly attributable to the businesses discussed above. However, the condensed consolidated 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 and may not reflect the consolidated results of operations, financial position, and cash flows as a standalone company during all periods presented. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements as of December 31, 2015 and for the three and nine months ended December 31, 2015 and 2014, of CSWI are unaudited. In management’s opinion, all adjustments comprising normal recurring adjustments necessary for the fair statement of such condensed consolidated financial statements have been made.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report are presented as permitted by Regulation S-X and do not contain certain information included in annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the audited combined financial statements presented in our Information Statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC on September 9, 2015 (the “Information Statement”).

Certain prior period balances have been reclassified to conform to current period presentation with no effect on previously reported net income or cash flows from operations.

### **Accounting Policies**

We have consistently applied the accounting policies described in our Information Statement in preparing these condensed consolidated financial statements. Subsequent to the Share Distribution, we began accounting for stock-based compensation, which is described below.

*Stock-based Compensation* – Stock-based compensation is measured at the grant-date fair value. The exercise price of stock option awards and the 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 intrinsic value of restricted shares, which is typically the product of share price at the date of grant and the number of restricted shares granted, 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.

### **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 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.

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. We are currently evaluating the impact of ASU No. 2015-03 on our consolidated financial condition and results of operations.

## [Table of Contents](#)

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. We are currently evaluating the impact of ASU No. 2015-05 on our consolidated financial condition and results of operations.

In September 2015, the FASB issued ASU No. 2015-16, “Simplifying the Accounting for Measurement Period Adjustments,” which eliminates the requirement to retrospectively account for measurement period adjustments related to a business combination. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and is to be applied prospectively. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2015-16 on our consolidated financial condition and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016, and may be applied prospectively or retrospectively. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2015-17 on our consolidated financial condition and results of operations.

## **2. ACQUISITIONS**

### *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 \$16.75 million in cash, subject to final working capital adjustments. The acquisition was funded by borrowings under CSWT’s Revolving Credit Facility (discussed in Note 8). Leak Freeze is a leading manufacturer of original equipment manufacturer-approved air conditioning and refrigerant leak repair solutions. We do not have a preliminary estimate of how the purchase price will be allocated to the acquired assets. 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 the RectorSeal 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. 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 preliminary 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 and 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 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 as Strathmore’s performance since the date of acquisition has been less than initially anticipated. The acquisition was funded from borrowings of \$70.0 million (as discussed in Note 8). 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 general and administrative expenses in the accompanying consolidated statements of income. The preliminary calculation of the 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

## [Table of Contents](#)

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 will be amortized ratably to expense over the vesting period, which ends March 31, 2018. The 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. 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.

The following table summarizes the preliminary estimates of 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	42,650
Other, net	2,941
Current liabilities	(4,297)
Net tangible and intangible assets	58,404
Goodwill	12,395
Purchase price	<u>\$70,799</u>

Strathmore has been included in the Coatings, Sealants and Adhesives segment since its effective acquisition date. Net revenue attributable to Strathmore since the date of acquisition was \$42.1 million. Pro forma information regarding Strathmore is provided below (in thousands, except per share amounts):

	Three Months Ended December 31,	
	2015	2014
Revenues, net	\$ 70,918	\$ 76,661
Operating income	5,623	10,461
Net income	1,998	6,524
Earnings per share – Basic	0.13	0.42
Earnings per share – Diluted	0.13	0.42

	Nine Months Ended December 31,	
	2015	2014
Revenues, net	\$ 243,572	\$ 251,007
Operating income	40,690	40,749
Net income	23,611	26,542
Earnings per share – Basic	1.51	1.70
Earnings per share – Diluted	1.51	1.70

### *SureSeal Manufacturing*

On January 2, 2015, we acquired selected assets and the SureSeal brand from SureSeal Manufacturing 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.

## [Table of Contents](#)

### *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 focuses on the plumbing, HVAC and irrigation markets. Evo-Crete and Polyslab will 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 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. The 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. INVENTORIES

Inventories consist of the following (in thousands):

	December 31, 2015	March 31, 2015
Raw materials and supplies	\$ 28,870	\$ 21,837
Work in process	5,811	5,626
Finished goods	25,973	25,325
Total inventories	60,654	52,788
Less: LIFO reserve	(5,304)	(5,456)
Less: Obsolescence reserve	(666)	(157)
Inventories, net	<u>\$ 54,684</u>	<u>\$ 47,175</u>

### 4. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the period ended December 31, 2015 were as follows (in thousands):

	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Total
Balance at March 31, 2015	\$ 36,323	\$ 920	\$ 3,402	\$40,645
Acquisition of Strathmore	—	12,395	—	12,395
Acquisition of Deacon	—	4,105	—	4,105
Acquisition of Leak Freeze (a)	—	—	16,234	16,234
Currency translation	(70)	—	—	(70)
Balance at December 31, 2015	<u>\$ 36,253</u>	<u>\$ 17,420</u>	<u>\$ 19,636</u>	<u>\$73,309</u>

- (a) As discussed in Note 2 above, the fair value of assets acquired and liabilities assumed in the acquisition of Leak Freeze is not yet available. The amount presented here will be updated when the fair value attributable to working capital and other identifiable intangible assets is complete.

## Table of Contents

Intangible assets consist of the following (in thousands):

	Useful Life (Years)	December 31, 2015		March 31, 2015	
		Ending Gross Amount	Accumulated Amortization	Ending Gross Amount	Accumulated Amortization
Finite-lived intangible assets:					
Patents	5-20	\$ 14,295	\$ (8,232)	\$ 14,284	\$ (7,608)
Customer lists and amortized trademarks	10-20	67,282	(15,427)	37,091	(11,516)
Non-compete agreements (a)	5-12	1,109	(341)	2,877	(2,458)
Other	4-5	3,292	(266)	412	(137)
		<u>\$ 85,978</u>	<u>\$ (24,266)</u>	<u>\$ 54,664</u>	<u>\$ (21,719)</u>
Trade names and trademarks not being amortized:		<u>\$ 24,030</u>	<u>\$ —</u>	<u>\$ 8,052</u>	<u>\$ —</u>

(a) During the nine months ended December 31, 2015, we wrote off \$2.3 million of expired and fully amortized non-compete agreements.

Amortization expense for the three-month periods ended December 31, 2015 and 2014 was \$1.6 million and \$1.2 million, respectively. Amortization expense for the nine-month periods ended December 31, 2015 and 2014 was \$4.9 million and \$3.3 million, respectively. The following table shows the estimated future amortization for intangible assets as of December 31, 2015, for the remainder of the current fiscal year and the next five years ending March 31 (in thousands):

2016	\$1,745
2017	6,766
2018	6,608
2019	6,509
2020	5,730
2021	5,411

## 5. ACCRUED AND OTHER CURRENT LIABILITIES

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

	December 31, 2015	March 31, 2015
Compensation and related benefits	\$ 11,101	\$ 9,212
Rebates and marketing agreements	2,299	1,515
Commissions	972	1,157
Sales and property taxes	724	373
Other accrued expenses	3,559	3,744
Total accrued and other current liabilities	<u>\$ 18,655</u>	<u>\$ 16,001</u>

## 6. EXECUTIVE COMPENSATION

On August 28, 2014, the Board of Directors of Capital Southwest 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 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 plan, Joseph B. Armes, Kelly Tacke, and Bowen S. Diehl, 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 (December 29, 2015). 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. The initial plan component consists of nonqualified options awarded to purchase a total of 258,000 shares of common stock. The second plan component consists of total awards of 127,000 shares of restricted stock, which have voting rights, but do not have cash dividend rights. The final plan component consists of cash incentive payments awarded to each of Mr. Armes, Ms. Tacke and Mr. Diehl in an amount equal to the

## [Table of Contents](#)

excess of each awardee's allocable portion of the Total Payment Amount over the aggregate value as of the Trigger Event Date of the awardee's restricted common stock and nonqualified option awards under the plan. 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 the 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.

On September 8, 2015, the Board of Capital Southwest designated the Share Distribution as a transformative transaction for purposes of the executive compensation plan and amended the award agreements granted under the 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 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 will retain the obligation to fund the cash incentive awards granted under the Executive Compensation Plan, and all liabilities with respect to such cash incentive awards will remain liabilities of Capital Southwest. During the three and nine months ended December 31, 2015, we recorded total executive compensation expense for the cash incentive payments of \$0.9 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of \$0.2 million. The remaining cash compensation of \$2.7 million will be recognized as compensation expense over the remaining vesting period.

## **7. SHARE-BASED COMPENSATION**

In September 2015, in connection with the Share Distribution, we adopted 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 awards in connection with the Share Distribution.

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 6, 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 will be 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 will remain 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.

[Table of Contents](#)

We recorded stock-based compensation as follows for the three and nine months ended December 31, 2015 (in thousands):

	Three Months Ended December 31, 2015		
	Stock Options	Restricted Stock	Total
Stock-based compensation expense	\$ 103	\$ 375	\$ 478
Related income tax benefit	(36)	(131)	(167)
Net stock-based compensation expense	<u>\$ 67</u>	<u>\$ 244</u>	<u>\$ 311</u>

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

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

	Nine Months Ended December 31, 2015			
	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	—	—		
Canceled	—	—		
Outstanding at December 31, 2015	<u>368,487</u>	<u>\$ 24.40</u>	8.1	\$ 4.9
Exercisable at December 31, 2015	<u>126,181</u>	<u>\$ 23.31</u>	7.4	\$ 1.8

At December 31, 2015, we had unrecognized compensation cost related to non-vested stock options of \$0.9 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 2.2 years. The calculation of unrecognized compensation cost and weighted average periods include 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. Other than options awarded in conjunction with the Share Distribution, which were granted at a weighted average fair value of \$6.67 per share, no options were granted during the three or nine months ended December 31, 2015. No options were exercised during the three or nine months period ended December 31, 2015 or 2014. The total fair value of stock options vested during the three and nine months ended December 31, 2015 was \$0.4 million.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at April 1, 2015	—	\$ —
Granted	221,903	22.04
Vested	(42,333)	15.19
Canceled	(1,800)	26.09
Outstanding at December 31, 2015	<u>177,770</u>	<u>\$ 26.81</u>

During the restriction period, the holders of restricted stock are entitled to vote and receive dividends, except for restricted shares awarded under the executive compensation plan discussed in Note 6. At December 31, 2015, we had unrecognized compensation cost related to unvested restricted shares of \$3.1 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 2.3 years. The calculation of unrecognized compensation cost and weighted average periods include 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. The total fair value of restricted shares vested during the three and nine months ended December 31, 2015 was \$0.6 million and \$0.7 million, respectively. The total fair value of restricted shares vested during the three and nine months ended December 31, 2014 was \$0 and less than \$0.1 million, respectively.

## [Table of Contents](#)

Restricted stock granted during the three months ended December 31, 2015 includes 17,449 shares with performance-based vesting provisions, and vesting ranges from 0-100% based on pre-defined performance targets. Performance-based restricted stock is earned upon the achievement of performance targets, and is payable in common shares. Compensation expense is recognized over a 36-month cliff vesting period based on the fair market value of our common stock on the date of grant. During the performance period, compensation expense may be adjusted based on changes in the expected achievement of the performance targets.

### 8. LONG-TERM DEBT

Debt consists of the following (in thousands):

	December 31, 2015	March 31, 2015
Revolving Credit Facility, interest rate of 2.52%	\$ 93,039	\$ —
RectorSeal line of credit, interest rate of 1.77%	—	13,000
Whitmore term loan, interest rate of 2.42% and 2.17%, respectively	13,284	13,704
Total debt	106,323	26,704
Less: Current portion	(561)	(13,561)
Long-term debt	<u>\$ 105,762</u>	<u>\$ 13,143</u>

#### ***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. Borrowings under this facility bear interest at a rate of prime plus 0.75% or London Interbank Offered Rate (“LIBOR”) plus 1.75%, which may be adjusted based on our leverage ratio. We pay a commitment fee 0.25% 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 December 31, 2015, we had \$93.0 million in outstanding borrowings under this facility. The agreement contains certain restrictive covenants, including requiring us to maintain a minimum fixed charge coverage of ratio of 1.25 to 1.00 and a maximum leverage ratio of EBITDA to Funded Debt (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 December 31, 2015.

During February 2016, we repaid \$21.5 million of the amount that was outstanding at December 31, 2015 under this facility.

#### ***RectorSeal Line of Credit***

RectorSeal had a \$30.0 million secured line of credit with a bank available for acquisitions and general corporate purposes, which was scheduled to mature on July 31, 2016. Quarterly interest payments were required. Borrowings under the line of credit bore interest at a variable annual rate of either the one month LIBOR plus 1.5% or 0.75% less than the bank floating rate. The line of credit was secured by accounts receivable, inventory, equipment, investments, and other assets of RectorSeal (excluding its subsidiaries). As of March 31, 2015, RectorSeal had \$13.0 million in outstanding borrowings under the line of credit. The remaining principal balance of \$6.5 million was repaid on December 11, 2015 with borrowings under the Revolving Credit Facility, and the line of credit was terminated.

#### ***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.

#### ***Whitmore Line of Credit***

As of December 31, 2015, Whitmore had a \$20.0 million secured line of credit with a syndicate of four commercial banks available for general corporate purposes. The line of credit was scheduled to mature on April 27, 2020. Borrowings under the line of credit bore interest at a variable annual rate of 0.5% less than the bank floating rate. As of March 31, 2014, Whitmore had outstanding borrowings of \$4.3 million under the line of credit. Whitmore repaid the entire balance during the quarter ended December 31, 2014. As of March 31, 2015, Whitmore had no outstanding borrowings under the line of credit. This line of credit was terminated in conjunction with our Revolving Credit Facility.



## [Table of Contents](#)

### **Whitmore Term Loan**

As of December 31, 2015, Whitmore had a secured term loan outstanding related to a newly constructed 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, and we have quarterly payments of \$140,000 due in each of the next four quarters. Borrowings under the term loan bear interest at a variable annual rate equal to one month LIBOR plus 2.0%. As of December 31, 2015 and March 31, 2015, Whitmore had \$13.3 million and \$13.7 million, respectively, in outstanding borrowings under the term loan.

### **Balco Line of Credit**

Balco had a \$1.5 million unsecured revolving line of credit with a bank available for working capital purposes that matured on October 29, 2015. Borrowings under the line of credit bore interest at a variable annual rate of 0.5% less than the U.S. prime interest rate, with a floor of 3.75%. As of March 31, 2015, Balco had no outstanding borrowings under the line of credit.

### **Future Minimum Debt Payments**

As of December 31, 2015, our future minimum debt payments are as follows for fiscal years ending March 31 (in thousands):

2016 (remainder)	\$	140
2017		561
2018		561
2019		561
2020		561
Thereafter		103,939
Total		<u>\$106,323</u>

## **9. 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 restricted stock qualifies 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 below 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.

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.

## Table of Contents

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share for the three and nine months ended December 31, 2015 and 2014 (amounts in thousands, except per share data):

	Three Months Ended December 31,	
	2015	2014
Net income for basic and diluted earnings per share	\$ 1,998	\$ 6,386
Weighted average shares:		
Common stock	15,441	15,441
Participating securities	222	142
Denominator for basic earnings per common share	15,663	15,583
Potentially dilutive securities (a)	78	41
Denominator for diluted earnings per common share	15,741	15,624
Earnings per common share:		
Basic	\$ 0.13	\$ 0.41
Diluted	0.13	0.41

  

	Nine Months Ended December 31,	
	2015	2014
Net income for basic and diluted earnings per share	\$ 23,611	\$ 24,372
Weighted average shares:		
Common stock	15,441	15,441
Participating securities	169	142
Denominator for basic earnings per common share	15,610	15,583
Potentially dilutive securities (a)	78	41
Denominator for diluted earnings per common share	15,688	15,624
Earnings per common share:		
Basic	\$ 1.51	\$ 1.56
Diluted	1.51	1.56

- (a) No shares were excluded for anti-dilution for the three and nine months ended December 31, 2015. We have excluded 29,877 shares for the three and nine months ended December 31, 2014 as their effect would have been anti-dilutive.

## 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 December 31, 2015 and March 31, 2015, we had \$47.4 million and \$13.7 million, respectively, of notional amount in outstanding designated interest rate swaps with third parties. All interest rate swaps are highly effective. At December 31, 2015, the maximum remaining length of any interest rate swap contract in place was approximately 13.6 years.

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 under interest rate swap agreements and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

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

	December 31, 2015	March 31, 2015
Current derivative liabilities	\$ 466	\$ —
Non-current derivative liabilities	611	1,206

## [Table of Contents](#)

Current and non-current derivative liabilities are reported in our consolidated balance sheets in Accrued and other current liabilities and Other long-term liabilities, respectively. The impact of changes in fair value of interest rate swaps is included in Note 16.

### 11. FAIR VALUE MEASUREMENTS

The fair value of interest rate swaps discussed in Note 10 are determined using Level 2 inputs. The carrying value of our debt, included in Note 8, 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 December 31, 2015 and March 31, 2015 due to their short-term nature.

The fair values of contingent payments discussed in Note 2 are estimated using Level 3 inputs. 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 Strathmore acquisition 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. The contingent payment related to the acquisition of the SureSeal assets 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 fair value of contingent payments was \$5.7 million, which includes the addition of a \$0.5 million contingent payment for Deacon, and \$5.1 million as of December 31, 2015 and March 31, 2015, respectively. During the three and nine months ended December 31, 2015, the fair value of the contingent payment related to the SureSeal acquisition was increased by \$0.2 million, net to \$5.3 million due primarily to accretion. During the nine months ended December 31, 2015 the fair value of the contingent payment related to the Strathmore acquisition was reduced by \$2.0 million to \$0 due to a decline in the probability that Strathmore would meet the minimum threshold for payment. All changes in the fair value of contingent payments are recorded in General and administrative expense.

### 12. RETIREMENT PLANS

We maintain a qualified defined benefit pension plan (the "Qualified Plan") that covers substantially all of our U.S. employees. 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. The Qualified Plan is closed to any employees hired or re-hired on or after January 1, 2015. The Qualified Plan has been amended to freeze benefit accruals and to modify certain ancillary benefits provided under the Qualified Plan effective as of September 30, 2015. 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 will reduce net periodic pension expense for the remainder of the current year 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 three or nine month periods ended December 31, 2015 and 2014.

The following tables set forth the Qualified Plan's net pension (benefit) expense recognized in our condensed consolidated financial statements (in thousands):

	Three Months Ended December 31,	
	2015	2014
Service cost – benefits earned during the period	\$ —	\$ 760
Interest cost on projected benefit obligation	642	628
Expected return on assets	(951)	(601)
Amortization of net prior service cost	—	14
Net pension (benefit) expense	\$ (309)	\$ 801

## [Table of Contents](#)

	Nine Months Ended December 31,	
	2015	2014
Service cost – benefits earned during the period	\$ 2,042	\$ 2,280
Interest cost on projected benefit obligation	2,024	1,884
Expected return on assets	(2,275)	(1,804)
Amortization of net prior service (benefit) cost	(28)	43
Curtailed benefit	(8,051)	—
Net pension (benefit) expense	<u>\$ (6,288)</u>	<u>\$ 2,403</u>

The curtailment benefit is recorded in Cost of revenues (\$2.7 million), General and administrative expenses (\$2.3 million), Selling and distribution expenses (\$2.4 million) and Research and development expenses (\$0.7 million).

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, 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. The following table sets forth the Restoration Plan’s net pension expense recognized in our condensed consolidated financial statements (in thousands):

	Three Months Ended December 31,	
	2015	2014
Service cost – benefits earned during the period	\$ —	\$ 16
Interest cost on projected benefit obligation	18	17
Amortization of net prior service cost	2	3
Amortization of net actuarial loss	6	5
Net pension expense	<u>\$ 26</u>	<u>\$ 41</u>

	Nine Months Ended December 31,	
	2015	2014
Service cost – benefits earned during the period	\$ 27	\$ 49
Interest cost on projected benefit obligation	54	50
Amortization of net prior service cost	7	8
Amortization of net actuarial loss	26	16
Curtailed benefit	31	—
Net pension expense	<u>\$ 145</u>	<u>\$ 123</u>

### 13. RELATED PARTY DISCLOSURES

We paid management fees of \$0 and \$0.1 million for the three months ended December 31, 2015 and 2014, respectively, and \$0.2 million and \$0.4 million for the nine months ended December 31, 2015 and 2014, respectively, to a management company subsidiary of Capital Southwest for services rendered during each respective period. These amounts are presented as General and administrative expenses in the consolidated statements of income. Following the Share Distribution, CSWI is no longer liable for the payment of management fees.

We paid dividends to our former sole shareholder, Capital Southwest, of \$0 and \$0.2 million for the three months ended December 31, 2015 and 2014, respectively, and \$0.3 million and \$0.7 million for the nine months ended December 31, 2015 and 2014, respectively. Any future payment of dividends to CSWI’s shareholders 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 the Board of Directors may deem relevant. We do not currently expect to pay dividends on our common stock for the foreseeable future.

As of December 31, 2015, 942,493 shares of Capital Southwest stock were held under the employee stock-ownership plan and 169,552 shares of Capital Southwest stock were held in the qualified defined benefit pension plan.

## [Table of Contents](#)

*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.

## **14. CONTINGENCIES**

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. There are 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.

## **15. INCOME TAXES**

For the three months ended December 31, 2015, we earned \$4.8 million before taxes and provided for income taxes of \$2.8 million, resulting in an effective tax rate of 58.6%. For the nine months ended December 31, 2015, we earned \$38.2 million before taxes and provided for income taxes of \$14.6 million, resulting in an effective tax rate of 38.2%. The net impact of discrete items of \$1.1 million, relating primarily to start-up and organizational costs incurred in connection with the Share Distribution that are not deductible for tax purposes, which increased the effective tax rate by 23.8% and 3.0% for the three and nine months ended December 31, 2015, respectively. For the three months ended December 31, 2014, we earned \$9.8 million before taxes and provided for income taxes of \$3.4 million, resulting in an effective tax rate of 34.5%. For the nine months ended December 31, 2014, we earned \$36.8 million before taxes and provided for income taxes of \$12.4 million, resulting in an effective tax rate of 33.7%. Other items impacting the variance in the effective tax rate from the U.S. federal statutory rate for all periods include foreign operations activity in countries with lower statutory rates and domestic operations activity in states with higher statutory rates.

**16. OTHER COMPREHENSIVE INCOME**

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

	<u>Three Months Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
<b>Currency translation adjustments:</b>		
Balance at beginning of period	\$ (5,094)	\$ 802
Adjustments for foreign currency translation, net of taxes of \$456 and \$1,285, respectively	(847)	(2,386)
Balance at end of period	<u>\$ (5,941)</u>	<u>\$ (1,584)</u>
<b>Interest rate swaps:</b>		
Balance at beginning of period	\$ (991)	\$ —
Unrealized gains, net of taxes of \$(93)	174	—
Reclassification of losses included in interest expense, net, net of taxes of \$(63)	116	—
Other comprehensive income (loss)	<u>290</u>	<u>—</u>
Balance at end of period	<u>\$ (701)</u>	<u>\$ —</u>
<b>Defined benefit plans:</b>		
Balance at beginning of period	\$ (362)	\$ 952
Amortization of net prior service benefit, net of taxes of \$0 (a)	2	—
Amortization of net loss, net of taxes of \$(2) (a)	5	—
Other comprehensive income (loss)	<u>7</u>	<u>—</u>
Balance at end of period	<u>\$ (355)</u>	<u>\$ 952</u>

## [Table of Contents](#)

	Nine Months Ended December 31,	
	2015	2014
<b>Currency translation adjustments:</b>		
Balance at beginning of period	\$ (3,877)	\$ 1,399
Adjustments for foreign currency translation, net of taxes of \$1,111 and \$1,606, respectively	(2,064)	(2,983)
Balance at end of period	<u>\$ (5,941)</u>	<u>\$ (1,584)</u>
<b>Interest rate swaps:</b>		
Balance at beginning of period	\$ (1,206)	\$ —
Unrealized gains, net of taxes of \$(113)	209	—
Reclassification of losses included in interest expense, net, net of taxes of \$(159)	296	—
Other comprehensive income (loss)	505	—
Balance at end of period	<u>\$ (701)</u>	<u>\$ —</u>
<b>Defined benefit plans:</b>		
Balance at beginning of period	\$ (5,210)	\$ 1,098
Amortization of net prior service benefit, net of taxes of \$7 and \$0, respectively (a)	(13)	53
Amortization of net loss, net of taxes of \$(9) and \$0, respectively (a)	18	(199)
Curtailment, net of taxes of \$(2,612)	4,850	—
Other comprehensive income (loss)	4,855	(146)
Balance at end of period	<u>\$ (355)</u>	<u>\$ 952</u>

- (a) 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.

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 December 31, 2015.

## 17. SEGMENTS

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

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

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

[Table of Contents](#)

**Three months ended December 31, 2015**

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 28,498	\$ 24,301	\$ 18,075	\$ 70,874	\$ 44	\$ 70,918
Operating income	3,422	4,172	1,735	9,329	(3,706)	5,623

**Three months ended December 31, 2014**

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 24,904	\$ 12,256	\$ 23,610	\$ 60,770	\$ 101	\$ 60,871
Operating income	3,008	2,642	4,036	9,686	36	9,722

**Nine months ended December 31, 2015**

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	\$104,660	\$ 80,721	\$ 58,009	\$243,390	\$ 182	\$243,572
Operating income	24,786	10,974	9,422	45,182	(4,492)	40,690

**Nine months ended December 31, 2014**

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
Revenues, net	\$ 89,062	\$ 38,350	\$ 69,644	\$197,056	\$ 707	\$197,763
Operating income	14,466	9,028	12,082	35,576	38	35,614

**Total assets as of:**

(in thousands)	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Subtotal – Reportable Segments	Eliminations and Other	Total
December 31, 2015	\$153,453	\$ 137,022	\$ 97,725	\$388,200	\$ 20,369	\$408,569
March 31, 2015	152,187	38,604	77,937	268,728	17,793	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 United States, 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):

	Three Months Ended December 31,			
	2015		2014	
U.S.	\$58,699	82.8%	\$44,343	72.8%
Non-U.S.	12,219	17.2%	16,528	27.2%
Revenues, net	<u>\$70,918</u>	<u>100.0%</u>	<u>\$60,871</u>	<u>100.0%</u>



[Table of Contents](#)

	Nine Months Ended December 31,			
	2015		2014	
U.S.	\$204,292	83.9%	\$149,982	75.8%
Non-U.S.	39,280	16.1%	47,781	24.2%
Revenues, net	<u>\$243,572</u>	<u>100.0%</u>	<u>\$197,763</u>	<u>100.0%</u>

  

	As of			
	December 31, 2015		March 31, 2015	
U.S.	\$221,861	94.4%	\$134,117	90.3%
Non-U.S.	13,235	5.6%	14,457	9.7%
Long-lived assets (a)	<u>\$235,096</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 tax assets.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in this Quarterly Report, as well as our consolidated financial statements and related notes for the fiscal year ended March 31, 2015 included in our Information Statement. This discussion and analysis contains forward-looking statements based on current expectations relating to future events and our future performance that involve risks and uncertainties. See "*Cautionary Note Regarding Forward-Looking Statements*" below. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those risk factors set forth in our Information Statement.

### The Share Distribution

On December 2, 2014, Capital Southwest announced its plan to spin-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 occurred on September 30, 2015, and CSWI became an independent, publicly traded company. Prior to the Share Distribution, Capital Southwest contributed to CSWI all of the outstanding capital stock of the entities described below:

- *RectorSeal* formulates and manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations. RectorSeal also makes specialty tools for tradesmen and innovative systems for containing flames and smoke from building fires. RectorSeal's operating results are divided amongst each of our three business segments.
- *Whitmore* manufactures high performance, specialty lubricants for heavy equipment used in surface mining, railroad and other industries. Whitmore also manufactures lubrication equipment, specifically for rail applications, and lubrication-centric reliability solutions for a wide variety of industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore's operating results are divided amongst each of our three business segments.
- *Jet-Lube* is a world leader in anti-seize compounds, thread sealants and specialty lubrication products and greases for the energy industry. Jet-Lube's operating results are divided amongst our Coatings, Sealants and Adhesives and Specialty Chemicals segments.
- *Strathmore* is engaged in the manufacturing of paint for sale to industrial clients and is a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds. Strathmore's operating results are included in the Coatings, Sealants and Adhesives segment.
- *Balco* is engaged in the fabrication of aluminum and plastic extrusions and other materials related to safety, slip resistance and emergency egress. Balco's operating results are included in the Industrials Products segment.
- *Smoke Guard* manufactures certified custom safety products for the commercial construction market and other markets requiring smoke and fire protection. Smoke Guard's operating results are included in the Industrials Products segment.
- *CapStar* acquires, holds and manages certain real estate and other assets. The operations of CapStar are not material.

Additionally, prior to the Share Distribution, Capital Southwest contributed to CSWI \$13.0 million in cash and pension assets of \$10.4 million (CSWI assumed both the pension plan assets and obligations associated with the defined benefit pension plan).

### Overview

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

Many of our products are used to protect the capital assets of our customers that are expensive to repair or replace and are critical to their operations. The maintenance, repair and overhaul 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 and KATS Coatings. We use contract manufacturers to manufacture certain products, but the majority of these products are either

## [Table of Contents](#)

privately-labeled or manufactured exclusively for us. These products accounted for approximately 43%, 10% and 3% of the net revenues of the Industrial Products, Coatings, Sealants and Adhesives and Specialty Chemicals segments, respectively, for the nine months ended December 31, 2015. The use of third party manufacturers resulted in an increase of approximately 8% in operating margins when compared to the operating margins of internally-manufactured products.

Prior to the Share Distribution, we operated as separate entities. The condensed consolidated financial statements included in this Quarterly Report include all revenues, costs, assets, and liabilities directly attributable to the businesses discussed above. 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 the businesses been operating as separate publicly traded (“standalone”) companies during those periods and may not reflect the condensed consolidated results of operations, financial position, and cash flows as standalone companies during all periods presented. Based on our initial projections and current activity level, we expect recurring corporate overhead to be at least \$1.5 million per quarter. We expect to incur capital costs in the next few years to integrate our operations, including the consolidation of some of our manufacturing facilities. As a result of these efforts, we expect to operate 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 start up certain standalone corporate functions, information systems costs and other organizational-related costs. We expect that the synergies that may be achieved through our integration efforts may offset the additional costs in the longer term.

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 nine months ended December 31, 2015, we experienced headwinds caused by spending declines at many of our customers in the energy and mining end markets as they struggled to cope with low market prices for crude oil, gas and other natural resources. To a lesser extent, these headwinds also indirectly impacted other end markets that we serve including rail and industrial. We expect that the current energy environment will persist throughout 2016. We continue to be pleased with strong sales growth in other key end markets such as HVAC, where our innovative mechanical products and chemicals have increased market penetration, and Architecturally Specified Building Products, which is currently benefitting from a robust commercial construction cycle.

## RESULTS OF OPERATIONS

The following discussion provides an analysis of our consolidated results of operations and results for each of our segments. Currency effects included in the discussion below are calculated by translating current fiscal year results on a monthly basis at prior fiscal year exchange rates for the same periods.

The acquisitions listed below impact comparability:

<u>Acquisition</u>	<u>Effective Date</u>	<u>Segment</u>
Leak Freeze	December 16, 2015	Specialty Chemicals
Deacon	October 1, 2015	Coatings, Sealants & Adhesives
Strathmore	April 1, 2015	Coatings, Sealants & Adhesives
SureSeal	January 2, 2015	Industrial Products
Evo-Crete, Polyslab	August 15, 2014	Industrial Products

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 condensed consolidated financial statements included in this Quarterly Report.

## Table of Contents

(Amounts in thousands, except percent and per share data)	Three Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 70,918	\$ 60,871	\$10,047	16.5%
Gross profit	32,149	28,696	3,453	12.0%
Gross profit margin	45.3%	47.1%		
Operating expenses	(26,526)	(18,974)	7,552	39.8%
Operating income	5,623	9,722	(4,099)	-42.2%
Operating margin	7.9%	16.0%		
Interest expense, net	(793)	(123)	670	544.7%
Other (expense) income, net	(7)	152	(159)	-104.6%
Provision for income taxes	(2,825)	(3,365)	(540)	-16.0%
Effective tax rate	58.6%	34.5%		
Net income	1,998	6,386	(4,388)	-68.7%
Earnings per share, diluted	0.13	0.41	(0.28)	

(Amounts in thousands, except percent and per share data)	Nine Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 243,572	\$ 197,763	\$45,809	23.2%
Gross profit	113,437	95,669	17,768	18.6%
Gross profit margin	46.6%	48.4%		
Operating expenses	(72,747)	(60,055)	12,692	21.1%
Operating income	40,690	35,614	5,076	14.3%
Operating margin	16.7%	18.0%		
Interest expense, net	(2,292)	(469)	1,823	388.7%
Other (expense) income, net	(185)	1,640	(1,825)	-111.3%
Provision for income taxes	(14,602)	(12,413)	2,189	17.6%
Effective tax rate	38.2%	33.7%		
Net income	23,611	24,372	(761)	-3.1%
Earnings per share, diluted	1.51	1.56	(0.05)	

### Net Revenues

Net revenues for the three months ended December 31, 2015 increased \$10.0 million, or 16.5%, as compared with the three months ended December 31, 2014. The increase was attributable to \$13.2 million from acquisitions, partially offset by decreased volumes. Decreased sales volumes into the energy and mining industries were partially offset by higher sales volumes of both existing products and new products, especially into the architecturally-specified building products market.

Net revenues for the nine months ended December 31, 2015 increased \$45.8 million, or 23.2%, as compared with the nine months ended December 31, 2014. The increase was attributable to \$45.7 million from acquisitions. Higher sales volumes of both existing products and new products, especially into the HVAC and architecturally-specified building products markets, were offset by decreased sales volumes into the energy and mining industries.

Net revenues derived from the U.S. and non-U.S. represented approximately 83% and 17%, respectively, for the three months ended December 31, 2015, compared with approximately 73% and 27%, respectively, for the three months ended December 31, 2014. The increase in the percentage of net revenues in the U.S. was partially attributable to the impact of acquisitions. Net revenues derived from the U.S. and non-U.S. represented approximately 84% and 16%, respectively, for the nine months ended December 31, 2015, compared with approximately 76% and 24%, respectively, for the nine months ended December 31, 2014. The increase in the percentage of net revenues in the U.S. was partially attributable to the impact of acquisitions. The presentation of net revenues by geographic region is based on the destination of product or service delivery.

## [Table of Contents](#)

### *Gross Profit and Gross Profit Margin*

Gross profit for the three months ended December 31, 2015 increased by \$3.5 million, or 12.0%, as compared with the three months ended December 31, 2014. The increase was attributable to the acquisitions of Strathmore and Deacon. Gross profit margin for the three months ended December 31, 2015 of 45.3% decreased from 47.1% for the three months ended December 31, 2014. The decrease was caused primarily by the addition of the lower gross margin associated with Strathmore products, partially offset by changes in product mix and lower materials costs for certain products.

Gross profit for the nine months ended December 31, 2015 increased by \$17.8 million, or 18.6%, as compared with the nine months ended December 31, 2014. The increase was primarily attributable to the acquisition of Strathmore (\$10.8 million) and a pension plan curtailment benefit (\$2.7 million). Gross profit margin for the nine months ended December 31, 2015 of 46.6% decreased from 48.4% for the nine months ended December 31, 2014. This decrease was caused primarily by the addition of the lower gross margin associated with Strathmore products, partially offset by changes in product mix and lower materials costs for certain products.

### *Operating Expenses*

Operating expenses for the three months ended December 31, 2015 increased \$7.6 million, or 39.8%, as compared with the three months ended December 31, 2014. The increase was attributable to acquired operations (\$3.4 million), organizational and start-up costs incurred in connection with the Share Distribution (\$2.1 million), personnel-related expenses and professional fees (\$1.6 million) and transaction costs (\$0.8 million), partially offset by the reversal of the liability for the earn-out related to the Strathmore acquisition (\$2.0 million).

Operating expenses for the nine months ended December 31, 2015 increased \$12.7 million, or 21.1%, as compared with the nine months ended December 31, 2014. The increase was attributable to acquired operations (\$12.4 million, which includes \$3.4 million of transaction costs), as well as increased sales and distribution expenses consistent with increased sales volumes, organizational start-up costs incurred in connection with the Share Distribution (\$3.0 million) and personnel-related expenses and professional fees. These increases were partially offset by a decrease in research and development expenses related to a project for the development of certain fire and smoke prevention products in the prior period that did not recur, a pension plan curtailment benefit (\$5.3 million), the reversal of the liability for the earn-out related to the Strathmore acquisition (\$2.0 million) and an impairment loss (\$0.7 million) recognized on a patent and a trademark in the prior period that did not recur.

### *Operating Income*

Operating income for the three months ended December 31, 2015 decreased by \$4.1 million, or 42.2%, as compared with the three months ended December 31, 2014. The decrease was primarily a result of the \$7.6 million increase in operating expenses, partially offset by the \$3.5 million increase in gross profit, as discussed above.

Operating income for the nine months ended December 31, 2015 increased by \$5.1 million, or 14.3%, as compared with the nine months ended December 31, 2014. The increase was primarily a result of the \$17.8 million increase in gross profit, partially offset by the \$12.7 million increase in operating expenses, as discussed above.

### *Interest Expense, net*

Interest expense, net for the three months ended December 31, 2015 increased \$0.7 million as compared with the three months ended December 31, 2014. Interest expense, net for the nine months ended December 31, 2015 increased \$1.8 million as compared with the nine months ended December 31, 2014. Increases were due primarily to interest expense recognized on the loan related to the acquisition of Strathmore.

### *Other (Expense) Income, net*

Other (expense) income, net decreased by a negligible amount for the three months ended December 31, 2014 as compared with the three months ended December 31, 2015. Other (expense) income, net decreased \$1.8 million for the nine months ended December 31, 2014 as compared with the nine months ended December 31, 2015. The change was primarily attributable to a \$1.6 million gain on the sale of real estate in the prior period that did not recur.

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

The provision for income taxes for the three months ended December 31, 2015 was \$2.8 million, representing an effective tax rate of 58.6%, as compared with the provision of \$3.4 million, representing an effective tax rate of 34.5%, for the three months ended December 31, 2014. The provision for income taxes for the nine months ended December 31, 2015 was \$14.6 million, representing

## [Table of Contents](#)

an effective tax rate of 38.2 %, as compared with the provision of \$12.4 million, representing an effective tax rate of 33.7%, for the nine months ended December 31, 2014. The net impact of discrete items of \$1.1 million, relating primarily to start-up and organizational costs incurred in connection with the Share Distribution that are not deductible for tax purposes, which increased the effective tax rate by 23.8% and 3.0% for the three and nine months ended December 31, 2015, respectively. 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.

### *Net Income and Earnings Per Share*

Net income for the three months ended December 31, 2015 decreased by \$4.4 million to \$2.0 million, or to \$0.13 per diluted share, as compared with the three months ended December 31, 2014. The decrease was primarily attributable to the \$4.1 million decrease in operating income.

Net income for the nine months ended December 31, 2015 decreased by \$0.8 million to \$23.6 million, or to \$1.51 per diluted share, as compared with the nine months ended December 31, 2014. The decrease was attributable to the \$2.0 million increase in tax expense, the \$1.8 million increase in interest expense, net and the \$1.8 million decline in other income, mostly offset by the \$5.1 million increase in operating income.

### **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.

(Amounts in thousands, except percent data)	<b>Three Months Ended December 31,</b>		Change	
	<b>2015</b>	<b>2014</b>	Amount	Percent
Revenues, net	\$ 28,498	\$ 24,904	\$ 3,594	14.4%
Operating income	3,422	3,008	414	13.8%
Operating margin	12.0%	12.1%		

(Amounts in thousands, except percent data)	<b>Nine Months Ended December 31,</b>		Change	
	<b>2015</b>	<b>2014</b>	Amount	Percent
Revenues, net	\$ 104,660	\$ 89,062	\$15,598	17.5%
Operating income	24,786	14,466	10,320	71.3%
Operating margin	23.7%	16.2%		

Net revenues for the three months ended December 31, 2015 increased \$3.6 million, or 14.4%, as compared with the three months ended December 31, 2014. The increase was primarily attributable to increased sales volumes, as well as some improved pricing and \$0.7 million attributable to acquisitions. Excluding the impact of acquisitions, increases in sales volumes and prices accounted for approximately 93% and 7%, respectively, of the increase in net revenues, and the increase in sales volumes resulted from increased sales of existing products (\$2.5 million), reflecting greater demand in the HVAC and the architecturally-specified building products markets.

Net revenues for the nine months ended December 31, 2015 increased \$15.6 million, or 17.5%, as compared with the nine months ended December 31, 2014. The increase was primarily attributable to increased sales volumes, as well as some improved pricing and \$2.9 million attributable to acquisitions. Excluding the impact of acquisitions, increases in sales volumes and prices accounted for approximately 96% and 4%, respectively, of the increase in net revenues, and the increase in sales volumes resulted mainly from increased sales of existing products (\$9.2 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).

## [Table of Contents](#)

Operating income for the three months ended December 31, 2015 increased \$0.4 million, or 13.8%, as compared with the three months ended December 31, 2014. The increase is primarily attributable to increased net revenues, mostly offset by an increase in personnel-related expenses and professional fees (\$1.0 million). Operating margins for the three months ended December 31 are typically lower due to seasonality of our HVAC sales.

Operating income for the nine months ended December 31, 2015 increased \$10.3 million, or 71.3%, as compared with the nine months ended December 31, 2014. The increase is 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 general and administrative expenses due to personnel-related expenses and the increase in selling and distribution expenses due to higher freight and commission expenses associated with increased sales volumes.

### **Coatings, Sealants and Adhesives Segment Results**

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

(Amounts in thousands, except percent data)	Three Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 24,301	\$ 12,256	\$12,045	98.3%
Operating income	4,172	2,642	1,530	57.9%
Operating margin	17.2%	21.6%		

(Amounts in thousands, except percent data)	Nine Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 80,721	\$ 38,350	\$42,371	110.5%
Operating income	10,974	9,028	1,946	21.6%
Operating margin	13.6%	23.5%		

Net revenues for the three months ended December 31, 2015 increased \$12.0 million, or 98.3%, as compared with the three months ended December 31, 2014. The increase was attributable to \$12.5 million from acquisitions. Excluding the impact of acquisitions, sales into the energy industry declined, while sales into other markets improved.

Net revenues for the nine months ended December 31, 2015 increased \$42.4 million, or 110.5%, as compared with the nine months ended December 31, 2014. The increase was attributable to \$42.7 million from acquisitions. Excluding the impact of acquisitions, sales into the energy industry declined, while sales into other markets improved.

Operating income for the three months ended December 31, 2015 increased \$1.5 million, or 57.9%, as compared with the three months ended December 31, 2014. The increase is primarily attributable to increased net revenues, as well as the reversal of the liability for the earn-out related to the Strathmore acquisition (\$2.0 million), which were partially offset by increases in general and administrative expenses (\$2.0 million) and selling and distribution expenses (\$1.4 million) related to Strathmore's operations, and an increase in transaction costs (\$0.3 million). Operating margin for the three months ended December 31, 2015 of 17.2% decreased from 21.6% for the three months ended December 31, 2014 due to the addition of the lower gross margin associated with Strathmore products.

Operating income for the nine months ended December 31, 2015 increased \$1.9 million, or 21.6%, as compared with the nine months ended December 31, 2014. The increase is primarily attributable to 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). These improvements were partially offset by increases in general and administrative expenses (\$4.7 million) and selling and distribution expenses (\$4.1 million) related to Strathmore's operations, as well as an increase in general and administrative expenses due to Strathmore and other transaction costs (\$2.9 million).

### **Specialty Chemicals Segment Results**

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

## Table of Contents

(Amounts in thousands, except percent data)	Three Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 18,075	\$ 23,610	\$ (5,535)	-23.4%
Operating income	1,735	4,036	(2,301)	-57.0%
Operating margin	9.6%	17.1%		

(Amounts in thousands, except percent data)	Nine Months Ended December 31,		Change	
	2015	2014	Amount	Percent
Revenues, net	\$ 58,009	\$ 69,644	\$(11,635)	-16.7%
Operating income	9,422	12,082	(2,660)	-22.0%
Operating margin	16.2%	17.3%		

Net revenues for the three months ended December 31, 2015 decreased \$5.5 million, or 23.4%, as compared with the three months ended December 31, 2014. The decrease in net revenues was due to decreases in sales volumes related primarily to a slowdown in the energy industry (\$3.7 million), which has indirectly impacted other end markets. Additionally, the decrease in sales volumes associated with existing lubricant products offered to the mining and industrial markets (\$2.4 million) were partially offset by an increase in sales volumes associated with the rail industry (\$0.5 million).

Net revenues for the nine months ended December 31, 2015 decreased \$11.6 million, or 16.7%, as compared with the nine months ended December 31, 2014. The decrease in net revenues was due to decreases in sales volumes related primarily to a slowdown in the energy industry (\$11.0 million), which has indirectly impacted other end markets, as well as a decrease in sales volumes into the mining and industrial markets (\$4.1 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 (\$3.2 million), and to a lesser extent, an increase in prices.

Operating income for the three months ended December 31, 2015 decreased \$2.3 million, or 57.0%, as compared with the three months ended December 31, 2014. The decrease was attributable to the decrease in net revenues, as well as an increase in personnel-related expenses and professional fees (\$0.6 million) and transaction costs (\$0.5 million).

Operating income for the nine months ended December 31, 2015 decreased \$2.7 million, or 22.0%, as compared with the nine months ended December 31, 2014. The decrease was primarily attributable to the decrease in net revenues, as well as the increase in general and administrative expenses, resulting mainly from an increase in system costs, personnel-related expenses and professional fees and transactions costs (\$0.5 million). These were partially offset by a decrease in expenses due to a pension plan curtailment benefit (\$3.4 million) and a decrease in selling and distribution expenses as a result of lower freight and commissions expenses resulting from the decrease in sales volumes.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow Analysis

(amounts in thousands)	Nine Months Ended December 31,	
	2015	2014
Net cash provided by operating activities	\$ 38,482	\$ 32,068
Net cash used in investing activities	(97,931)	(3,455)
Net cash provided by (used in) financing activities	91,246	(22,812)

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, bank time deposits and restricted cash) at December 31, 2015 was \$56.6 million, as compared with \$32.1 million at March 31, 2015.



## [Table of Contents](#)

For the nine months ended December 31, 2015, our cash provided by operating activities was \$38.5 million, as compared with \$32.1 million for the nine months ended December 31, 2014. Cash flows from working capital increased for the nine months ended December 31, 2015, due primarily to lower accounts receivable (\$9.6 million) and lower inventories (\$1.5 million). Cash flows from working capital increased for the nine months ended December 31, 2014, due primarily to lower accounts receivable (\$7.5 million), partially offset by higher inventories (\$4.7 million) and lower accounts payable and other current liabilities (\$1.8 million).

Cash flows used by investing activities during the nine months ended December 31, 2015 were \$97.9 million as compared with \$3.5 million for the nine months ended December 31, 2014. Capital expenditures during the nine months ended December 31, 2015 were \$6.0 million, a decrease of \$2.3 million as compared with the nine months ended December 31, 2014. Our capital expenditures are focused on capacity expansion, continuous improvement, automation and consolidation of manufacturing facilities. We are in the process of streamlining some manufacturing operations, including the consolidation of most of our lubricant and grease production into our Rockwall, Texas facility. Our total capital expenditure requirements related to this consolidation are currently expected to be approximately \$7 million and \$3 million during the fiscal years ending March 31, 2016 and March 31, 2017, respectively, and may require additional capital expenditures in later periods. As discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report, we acquired Strathmore for \$68.8 million, Deacon for \$12.5 million and Leak Freeze for \$16.8 million during the nine months ended December 31, 2015. During the nine months ended December 31, 2014, 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 provided by financing activities during the nine months ended December 31, 2015 were \$91.2 million as compared with a use of \$22.8 million for the nine months ended December 31, 2014. Cash inflows during the nine months ended December 31, 2015 resulted primarily from borrowings on our new revolving credit agreement (as discussed in Note 8), which were 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.

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

### **Acquisitions and Dispositions**

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

Note 2 to our condensed consolidated financial statements included in this Quarterly Report contains a discussion of our acquisitions.

### **Financing**

#### ***Credit Facilities***

See Note 8 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our indebtedness. We complied with all covenants through December 31, 2015.

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 condensed consolidated financial statements included in this Quarterly Report, and in "Item 3. Quantitative and Qualitative Disclosures about Market Risk" below.

#### ***Off-Balance Sheet Arrangements***

As of December 31, 2015, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a material adverse effect on our financial condition or results of operations.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Information Statement. No significant changes to these policies have occurred in the nine months ended December 31, 2015.

## [Table of Contents](#)

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

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

## ACCOUNTING DEVELOPMENTS

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

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of our contractual obligations at December 31, 2015 (in thousands):

	Payments due by Period (1)				Total
	< 1 Year	1-3 Years	3-5 Years	> 5 Years	
Long-term debt obligations, principal (2)	\$ 140	\$ 1,122	\$ 1,122	\$103,939	\$106,323
Long-term debt obligations, interest (2)	839	6,647	6,538	5,691	19,715
Operating lease obligations (3)	635	3,394	2,431	5,452	11,912
Purchase obligations (4)	15,199	9,133	1,418	—	25,750
Other long-term liabilities (5)	213	652	5,928	280	7,073
Total (6)	<u>\$17,026</u>	<u>\$20,948</u>	<u>\$17,437</u>	<u>\$115,362</u>	<u>\$170,773</u>

- (1) The less than one year category represents the remainder of the current year (January 1, 2016 through March 31, 2016), the 1-3 years category represents fiscal years 2017 and 2018, the 3-5 years category represents fiscal years 2019 and 2020 and the greater than five years category represents fiscal years 2021 and thereafter.
- (2) Amounts include principal and interest cash payments through the maturity of the outstanding debt obligations. See Note 8 to our condensed consolidated financial statements included in this Quarterly Report.
- (3) Amounts exclude sublease rental income related to certain non-cancelable operating leases. 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, but include open purchase orders which represent amounts we anticipate will become payable for goods and services we have negotiated for delivery.
- (5) Amounts primarily include settlement of the non-current portion of the liability recorded for the interest rate swap agreements, contingent consideration payable due to acquisitions and future payments required under outstanding incentive awards. See Notes 2, 7 and 10 to our consolidated financial statements included in this Quarterly Report. 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 December 31, 2015. Excludes amounts that have been eliminated in our consolidated financial statements.

## Cautionary Note Regarding Forward-Looking Statements

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

## [Table of Contents](#)

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

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

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

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

#### ***Variable Rate Indebtedness***

We are subject to interest rate risk on our variable rate indebtedness. Fluctuations in interest rates have a direct effect on interest expense associated with our outstanding indebtedness. As of December 31, 2015, we had outstanding variable rate indebtedness of \$58.9 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 December 31, 2015, we had interest rate swap agreements that covered \$47.4 million of the \$106.3 million of our total outstanding indebtedness. At December 31, 2015 unhedged variable rate indebtedness of \$58.9 million had a weighted average interest rate of 2.73%. Each quarter point change in interest rates would result in a change of less than \$0.2 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 associated with foreign currency translation of \$0.8 million and \$2.4 million for the three months ended December 31, 2015 and 2014, respectively, and \$2.1 million and \$3.0 million for the nine months ended December 31, 2015 and 2014, respectively, which are included in other comprehensive income. We recognized foreign currency transaction net gains (losses) of \$0.1 million and less than \$0.1 million for the three months ended December 31, 2015 and 2014, and \$(0.2) million and \$(0.1) million for the nine months ended December 31, 2015 and 2014, respectively, which are included in other (expense) income, net in the condensed consolidated statements of operations.

## [Table of Contents](#)

Based on a sensitivity analysis at December 31, 2015, a 10% change in the foreign currency exchange rates for the nine months ended December 31, 2015 would have impacted our net earnings by a negligible amount. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices.

### **Item 4. Controls and Procedures.**

#### **Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are controls and other procedures that are designed to ensure that the information that 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 SEC's 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 Quarterly Report, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. 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 December 31, 2015.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. 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 1A. Risk Factors.

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to “Risk Factors” included in our Information Statement, which contain descriptions of significant factors that might cause the actual results of operations in future periods to differ materially from those currently expected or desired.

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

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

None.

### Item 3. Defaults upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

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

SIGNATURES

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

Date: February 16, 2016

CSW INDUSTRIALS, INC.

/s/ Joseph B. Armes

---

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

Date: February 16, 2016

/s/ Kelly Tacke

---

Kelly Tacke  
Chief Financial Officer  
(Principal Financial Officer)

**Exhibits Index**

<u>Exhibit No.</u>	<u>Description</u>
10.1+	Employment agreement by and between CSW Industrials, Inc. and Joseph Armes, dated October 1, 2015
10.2+	Form of Employee Restricted Stock Award Agreement (time vesting)
10.3+	Form of Employee Restricted Stock Award Agreement (performance vesting)
10.4+	Form of Non-Employee Director Restricted Stock Award (time vesting)
10.5+	Form of Incentive Stock Option Right Award Agreement (replacement award agreement)
10.6+	Form of Non-Qualified Stock Option Right Award Agreement (replacement award agreement)
10.7+	Form of Restricted Share Award Agreement (replacement award agreement)
10.8+	Form of Non-Qualified Stock Option Right Award Agreement (executive compensation plan – replacement award agreement)
10.9+	Form of Restricted Share Award Agreement (executive compensation plan – replacement award agreement)
10.10	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 with the Securities and Exchange Commission on December 17, 2015)
31.1+	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EX-101+	INSTANCE DOCUMENT
EX-101+	SCHEMA DOCUMENT
EX-101+	CALCULATION LINKBASE DOCUMENT
EX-101+	LABELS LINKBASE DOCUMENT
EX-101+	PRESENTATION LINKBASE DOCUMENT
EX-101+	DEFINITION LINKBASE DOCUMENT

+ Filed herewith.

++ Furnished herewith.

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of October 1, 2015 (the "Agreement"), is by and between CSW Industrials, Inc., a Delaware corporation (the "Company"), and Joseph B. Armes (the "Executive").

WHEREAS, the Company desires to employ the Executive as Chief Executive Officer of the Company, and the Executive desires to accept employment with the Company in such position, under the terms and conditions of this Agreement; and

WHEREAS, the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship between the Executive and the Company.

NOW, THEREFORE, intending to be legally bound hereby, the parties agree as follows:

1. Employment. The Company hereby employs the Executive, and the Executive hereby accepts employment with the Company, upon the terms and subject to the conditions set forth herein.

2. Term. The term of the employment by the Company of the Executive pursuant to this Agreement will commence on October 1, 2015 (the "Effective Date") through September 30, 2017 (such period, the "Initial Term"), and thereafter will be automatically extended on each anniversary of the Effective Date for additional successive one-year periods, until such time as the Executive's employment hereunder is terminated pursuant to Section 9 (the term of such employment being referred to herein as the "Employment Term").

3. Position.

(a) During the Employment Term, the Executive will serve as Chief Executive Officer of the Company, in which role the Executive will serve as the senior-most executive officer of the Company, with such duties, responsibilities and authority as are commensurate with such position. The Executive will report to, and will be subject to the direction and supervision of, the Board of Directors of the Company (the "Board"). The Executive agrees to serve, without any additional compensation, as a member of the board of directors and/or officer of any subsidiary of the Company as reasonably requested by the Board.

(b) The Executive currently serves as a member of the Board. The Company will, during the Employment Term, continue to nominate the Executive for re-election as a member of the Board at each applicable stockholders meeting of the Company at which the Executive's current term as a member of the Board would otherwise expire. The Executive will additionally serve as the Chairman of the Board for no less than the Initial Term. If the Executive's employment is terminated for any reason, whether such termination is voluntary or involuntary, the Executive will, if so requested by the Board, tender his resignation as a member of the Board.

4. Duties. During the Employment Term, the Executive will devote his full business time and attention to the business and affairs of the Company and its subsidiaries; provided, however, that the Executive will be permitted, so long as such activities do not unreasonably



interfere with the Executive's performance of his duties and obligations hereunder, to (i) serve on the board of directors of up to three for-profit entities, subject to prior Board approval thereof, which approval will not be unreasonably withheld, (ii) engage and serve such civic, community, charitable, educational or religious organizations as the Executive may reasonably select, and (iii) manage the Executive's personal, financial and legal affairs. The Company acknowledges and agrees that the Board has approved, in accordance with this Section 4, the Executive's continued service on the boards of directors listed on Schedule A hereto.

5. Salary and Bonus.

(a) During the Employment Term, the Company will pay to the Executive an annual base salary of \$500,000, as the same may be increased from time to time at the discretion of the Board or the Compensation Committee thereof (the "Base Salary"). The Base Salary will be payable in accordance with the regular payroll practices of the Company, but not less frequently than monthly.

(b) During the Employment Term, the Executive will have an annual incentive opportunity, under the Company's annual incentive plan in effect from time to time for its senior executive officers, based on a target incentive opportunity of 150% of the Executive's then-effective Base Salary and a maximum incentive opportunity of 300% of the Executive's then-effective Base Salary, subject to the attainment of one or more pre-established performance goals established by the Board (or the Compensation Committee thereof) in its sole discretion.

6. Benefit Plans. During the Employment Term, the Executive will be entitled to participate in any employee benefit plans maintained by the Company, subject to the terms of the applicable plans, including (i) Company-sponsored health, life and other insurance plans, (ii) Company pension, profit-sharing, and 401(k) plans, (iii) Company equity-based incentive plans, and (iii) such other usual and customary benefits accorded to the senior executive officers of the Company as a group, in each case on no less favorable terms and conditions than those applying to other senior executive officers of the Company.

7. Vacation. During the Employment Term, the Executive will be entitled to paid vacation in accordance with the Company's standard vacation accrual policies for its senior executive officers as in effect from time to time; provided that the Executive will during each calendar year be entitled to at least four weeks of such vacation.

8. Business Expenses. The Executive will be reimbursed for all reasonable travel, entertainment and other business expenses incurred by him in connection with his employment following timely submission by the Executive of receipts and other documentation in accordance with the Company's normal expense reimbursement policies.

9. Termination of Employment. The Executive's employment by the Company pursuant to this Agreement will not be terminated except as set forth in this Section 9.

(a) Death. The Executive's employment pursuant to this Agreement will be automatically terminated upon the death of the Executive.

(b) Disability. The Executive's employment pursuant to this Agreement may be terminated by the Company in the event of a Disability. "Disability" means the inability of the Executive to perform his material duties hereunder on a full time basis due to a physical or mental illness or incapacity for 180 days in any 365-day period, as determined in the reasonable discretion of the Board and as certified by a physician mutually selected by the Company and the Executive (or the Executive's representative).

(c) By the Company for Cause. The Executive's employment pursuant to this Agreement may be terminated at any time by the Company for Cause. "Cause" means the occurrence of any of the following: (i) the Executive's commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment of the Executive to the detriment of the Company; (ii) the Executive's conviction of, or entry into a plea of *nolo contendere* to, a felony; (iii) the Executive's repeated failure to perform his responsibilities hereunder that are demonstrably willful and deliberate, provided that such failures have continued for more than 30 days following written notice thereof delivered to the Executive by the Board; (iv) the Executive's intentional, repeated or continuing violation of any of the Company's material policies or procedures that occurs or continues beyond 30 days after written notice thereof to the Executive by the Board; or (v) any material breach of this Agreement by the Executive, provided that such breach is not corrected, to the extent correctible, within 30 days following written notice thereof to the Executive by the Board.

(d) By the Company Without Cause. The Executive's employment pursuant to this Agreement may be terminated by the Company without Cause at any time following the expiration of the Initial Term.

(e) By the Executive for Good Reason. The Executive's employment pursuant to this Agreement may be terminated by the Executive at any time for Good Reason. "Good Reason" means the occurrence of any of the following: (i) a material diminution in the Executive's Base Salary or bonus opportunity hereunder; (ii) a reduction in the Executive's title or material diminution in his authority, duties or responsibilities hereunder, including, without limitation, a requirement that Executive report to anyone other than the Board (or if the Company has a parent entity, anyone other than the board of directors of the applicable ultimate parent entity); (iii) the relocation of the principal executive offices of the Company to a location that is greater than 35 miles from the Executive's current place of residence, as determined on a linear basis; or (iv) any action or inaction that constitutes a material breach of this Agreement by the Company; provided that (A) the Executive shall have given the Company notice of the existence of an event described above not later than 90 days following the initial occurrence thereof, (B) the Company shall not have remedied such event within 30 days of receiving the notice described in the preceding clause (A), and (C) the Executive shall have delivered written notice of termination for Good Reason within 12 months of the end of the cure period described in the preceding clause (B).

(f) By the Executive Without Good Reason. The Executive's employment pursuant to this Agreement may be terminated by the Executive without Good Reason at any time following the expiration of the Initial Term.

(g) Date of Termination. The effective date of the termination of employment of the Executive pursuant to this Agreement (the “Date of Termination”) will be (i) if the Executive’s employment is terminated pursuant to Section 9(a), the date of his death, (ii) if the Executive’s employment is terminated by the Company pursuant to Section 9(b), Section 9(c) or Section 9(d), the 90th day following the Company’s delivery of written notice of such termination to the Executive, and (iii) if the Executive’s employment is terminated by the Executive pursuant to Section 9(e) or Section 9(f), the 90th day following the Executive’s delivery of written notice of such termination to the Company.

10. Consequence of Termination.

(a) Death or Disability. In the case of termination of the Executive’s employment hereunder pursuant to Section 9(a) or Section 9(b), the Executive will receive (i) all Base Salary to be paid to the Executive under this Agreement through the Date of Termination, (ii) any unpaid benefits (including death benefits) to which the Executive is entitled under any employee benefit plan, policy or program of the Company applicable to the Executive as of the Date of Termination, (iii) in the event the Date of Termination occurs after the completion of any fiscal year, but prior to the date any cash bonus related to such fiscal year has been determined or paid to the Executive, the amount of the cash bonus related to such fiscal year that the Executive would have otherwise been entitled to receive had the Executive’s employment not been terminated, and (iv) the amount of any target cash bonus for the fiscal year in which the Date of Termination occurs, pro-rated based on the portion of the applicable fiscal year that the Executive worked for the Company. The amounts referred to in clauses (i) through (iii) above will be paid to the Executive when the same would have been paid to the Executive in the absence of such termination, and the amount referred to in clause (iv) will be paid to the Executive within 60 days following the Date of Termination. Further, all unvested equity-based awards held by the Executive as of the Date of Termination will immediately vest in full, except in the case of awards that remain subject to objective performance-based determinations, in which case such awards will remain outstanding and will immediately vest upon, and to the extent of, the determination that such performance criteria have been satisfied. All stock options held by the Executive as of the Date of Termination will remain exercisable for one year following the later of the Date of Termination or the date such awards vest as provided above.

(b) Termination without Cause or for Good Reason. In the case of termination of the Executive’s employment hereunder pursuant to Section 9(d) or Section 9(e), the Executive will receive (i) all Base Salary to be paid to the Executive under this Agreement through the Date of Termination, (ii) a lump sum payment equal to two times the sum of (A) the Executive’s then current Base Salary or such higher Base Salary as in effect within the 12 months preceding the termination and (B) the Executive’s annual bonus for the preceding fiscal year or the target bonus for the then current fiscal year, whichever is great, (iii) any unpaid benefits to which the Executive is entitled under any employee benefit plan, policy or program of the Company applicable to the Executive as of the Date of Termination, (iv) in the event the Date of Termination occurs after the completion of any fiscal year, but prior to the date any cash bonus related to such fiscal year has been determined or paid to the Executive, the amount of the cash bonus related to such fiscal year that the Executive would have otherwise been entitled to receive had the Executive’s employment not been terminated, (v) the amount of any target cash bonus for the fiscal year in which the Date of Termination occurs, pro-rated based on the portion of the

applicable fiscal year that the Executive worked for the Company, and (vi) reimbursement for the costs of continuation of medical and dental insurance coverage for the Executive and his eligible dependents under the Company's health insurance plans in effect on the Date of Termination, or following the date that the Executive and his dependents no longer are eligible to participate in such plans, under comparable health insurance purchased by the Executive, for a period of 24 months following the Date of Termination. The amounts referred to in clauses (i), (iii) and (iv) above will be paid to the Executive when the same would have been paid to the Executive in the absence of such termination, and the amount referred to in clauses (ii) and (v) will be paid to the Executive within 60 days following the Date of Termination. The Executive will be reimbursed for incurred costs pursuant to clause (vi) within 30 days of submission to the Company of reasonable documentation of any costs so incurred. Further, all unvested equity-based awards held by the Executive as of the Date of Termination will immediately vest in full, except in the case of awards that remain subject to objective performance-based determinations, in which case such awards will remain outstanding and will immediately vest upon, and to the extent of, the determination that such performance criteria have been satisfied. All stock options held by the Executive as of the Date of Termination will remain exercisable for one year following the later of the Date of Termination or the date such awards vest as provided above.

(c) Termination with Cause or without Good Reason. If the Executive's employment hereunder is terminated pursuant to Section 9(c) or Section 9(f), the Executive will be entitled to receive (i) all Base Salary to be paid to the Executive under this Agreement through the Date of Termination and (ii) any unpaid benefits to which the Executive is entitled under any employee benefit plan, policy or program of the Company applicable to the Executive as of the Date of Termination.

#### 11. Representations.

(a) The Company represents and warrants that this Agreement has been authorized by all necessary corporate action of the Company and is a valid and binding agreement of the Company enforceable against it in accordance with its terms.

(b) The Executive represents and warrants that he is not a party to any agreement or instrument which would prevent him from entering into or performing his duties in any way under this Agreement.

12. Assignment. This Agreement is a personal contract and the rights and interests of the Executive hereunder may not be transferred, assigned, pledged, encumbered, or hypothecated by the Executive without the prior written consent of the Company, except as otherwise expressly permitted by the provisions of this Agreement. This Agreement will inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to him hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, will be paid to the Executive's estate. This Agreement and the rights and interests of the Company hereunder may not be transferred or assigned by the Company without the prior written consent of the Executive, except that any successor to the Company by merger or purchase of all or substantially all of the Company's assets shall assume this Agreement.

13. Restrictive Covenants.

(a) Confidentiality. During the course of the Executive's employment with the Company, the Executive will learn and otherwise acquire confidential information (as described below) of the Company. The Executive agrees that the Executive shall not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any person, other than in the course of the Executive's assigned duties and for the benefit of the Company, either during the period of the Executive's employment or at any time thereafter, any business and technical information or trade secrets, nonpublic, proprietary or confidential information, knowledge or data relating to the Company or any of its subsidiaries or their respective businesses, or received from third parties subject to a duty on the part of the Company or any of its subsidiaries to maintain the confidentiality of such information, in each case which shall have been obtained by the Executive during the Executive's employment by the Company (or any predecessor). The foregoing shall not apply to information that (i) was known to the public prior to its disclosure to the Executive, (ii) becomes generally known to the public subsequent to disclosure to the Executive through no wrongful act of the Executive or any representative of the Executive, or (iii) the Executive is required to disclose by applicable law, regulation or legal process, provided that the Executive provides the Company with prior notice of the contemplated disclosure and cooperates with the Company at its expense in seeking a protective order or other appropriate protection of such information.

(b) Non-Competition. During the Executive's employment hereunder and for a period of 24 months thereafter, the Executive agrees that the Executive will not, directly or indirectly, own, manage, operate, control, be employed by (whether as an employee, consultant, independent contractor or otherwise, and whether or not for compensation) or render services to any person, firm, corporation or other entity, in whatever form, engaged in competition with the Company or any of its subsidiaries or in any material business in which the Company or any of its subsidiaries is engaged on the date of termination or in which they have planned, on or prior to such date, to be engaged on or after such date, in any locale of any country in which the Company conducts such business. Notwithstanding the foregoing, nothing herein shall prohibit the Executive from being a passive owner of not more than five percent of the equity securities of a publicly traded corporation or other entity engaged in a business that is in competition with the Company or any of its subsidiaries, so long as the Executive has no active participation in the business of such corporation or other entity. In addition, the provisions of this Section 13(b) shall not be violated by the Executive commencing employment with a subsidiary, division or unit of any entity that engages in a business in competition with the Company or any of its subsidiaries or affiliates so long as the Executive and such subsidiary, division or unit do not engage in a business in competition with the Company or any of its subsidiaries or affiliates.

(c) Nonsolicitation. For a period of 24 months following the termination of the Executive's employment hereunder, the Executive will not solicit, aid or induce any executive or key employee of the Company or any of its subsidiaries to leave such employment or retention or to accept employment with or render services to or with any other person, firm, corporation or other entity unaffiliated with the Company, or hire or retain any such executive officer or key employee, or take any action to materially assist or aid any other person, firm, corporation or other entity in identifying, hiring or soliciting any such executive officer or key employee.

(d) Return of Company Property. On the date of the Executive's termination of employment with the Company for any reason, the Executive shall return all property belonging to the Company or its subsidiaries (including, but not limited to, any Company-provided laptops, computers, cell phones, wireless electronic mail devices or other equipment, or documents and property belonging to the Company). The Executive may retain the Executive's Outlook contacts and similar address books, provided that such items only include contact information and/or personal information not belonging to the Company.

(e) Company Remedies. The Executive and the Company agree that damages for breach of any of the covenants under this Section 13 will be difficult to determine and inadequate to remedy the harm which may be caused thereby, and therefore consent that these covenants may be enforced by temporary or permanent injunction without the necessity of bond. The Executive believes, as of the date of this Agreement, that the provisions of this Agreement are reasonable and that the Executive is capable of gainful employment without breaching this Agreement. However, should any court or arbitrator decline to enforce any provision of this Section 13, this Agreement shall, to the extent applicable in the circumstances before such court or arbitrator, be deemed to be modified to restrict the Executive's competition with the Company to the maximum extent of time, scope and geography which the court or arbitrator shall find enforceable, and such provisions shall be so enforced.

14. Clawback. Notwithstanding anything herein to the contrary, any incentive-based compensation payable to the Executive hereunder or pursuant to any other agreement or arrangement with the Company shall be subject to reduction, cancellation, forfeiture or recovery by the Company as and to the extent required by any applicable law, government regulation, or stock exchange listing requirement (or any policy of the Company adopted in accordance with the requirements of such law, government regulation, or stock exchange listing requirement).

15. Parachute Payments. Any provision of the Agreement to the contrary notwithstanding, if any payments or benefits the Executive would receive from the Company pursuant to the Agreement or otherwise (collectively, the "Payments") would, either separately or in the aggregate, (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Payments will be equal to the Reduced Amount. The "Reduced Amount" will be either (1) an amount equal to the largest portion of the Payments that would result in no portion of any of the Payments (after reduction) being subject to the Excise Tax or (2) the entire amount of the Payments, whichever amount, as between (1) and (2), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate, net of the maximum reduction in federal income taxes which could be obtained from a deduction of such state and local taxes), results in the Executive's receipt, on an after-tax basis, of the greatest amount of the Payments. If a reduction in the Payments is to be made so that the amount of the Payments equals the Reduced Amount, (x) the Payments will be paid only to the extent permitted under the Reduced Amount alternative, and the Executive will have no rights to additional payments and/or benefits constituting the Payments, and (y) reduction in payments and/or benefits will occur in the following order and in a manner intended to comply with Section 409A of the Code (as determined by the Company): (1) reduction or elimination of cash severance benefits that are subject to Section 409A of the

Code; (2) reduction or elimination of cash severance benefits that are not subject to Section 409A of the Code; (3) cancellation or elimination of accelerated vesting of equity awards subject to performance vesting (other than stock options); (4) cancellation or elimination of accelerated vesting of all other equity awards (other than stock options); (5) reduction or elimination of any remaining Payments that are subject to Section 409A of the Code; (6) reduction or elimination of any remaining Payments that are not subject to Section 409A of the Code; and (7) cancellation of accelerated vesting of stock options. In the event that acceleration of vesting of equity award compensation is to be reduced or eliminated, such acceleration of vesting will be cancelled in the reverse order of the date of grant of the Executive's equity awards. In no event will the Company or any stockholder be liable to the Executive for any amounts not paid as a result of the operation of this Section 15. All computations and determinations called for by this Section 15 shall be made by tax counsel or a nationally recognized accounting firm appointed by the Company (the "Tax Advisor"). If the Tax Advisor so engaged by the Company is serving as accountant or auditor for the acquirer, the Company will appoint another Tax Advisor to make the determinations required hereunder. The Company will bear all expenses with respect to the determinations by the Tax Advisor required to be made hereunder. The Tax Advisor engaged to make the determinations hereunder will provide its preliminary calculations, together with detailed supporting documentation, to the Company and the Executive as promptly as reasonably practicable following a request by the Company or the Executive. No portion of the Payments shall be taken into account which in the opinion of the Tax Advisor does not constitute a "parachute payment" within the meaning of Code Section 280G(b)(2), including by reason of Code Section 280G(b)(4) (A). The Executive shall have the right to review and submit such calculation and supporting documentation to his own tax consultant for review. If the Executive's tax consultant disagrees with such calculations and such objection is submitted to the Tax Advisor in writing in reasonable detail within five business days of the provision of the preliminary calculation, the Tax Advisor shall be obligated to consider any issues raised by the Executive's tax consultant in good faith before making any final determination hereunder. Any good faith determinations of the Tax Advisor made hereunder will be final, binding and conclusive upon the Company and the Executive.

16. Entire Agreement. This Agreement contains all the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes any other undertakings and agreements, whether oral or in writing, previously entered into by them with respect thereto. To the extent that any term or provision of any other document or agreement executed by the Executive with or for the Company during the Employment Term conflicts or is inconsistent with this Agreement, the terms and conditions of this Agreement shall prevail and supersede such inconsistent or conflicting term or provision, except to the extent, if any, expressly provided otherwise in such other document or agreement with specific reference to this Agreement.

17. Amendment, Modification or Waiver. No provision of this Agreement may be amended or waived, unless such amendment or waiver is agreed to in writing, signed by the Executive and by a duly authorized officer of the Company. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

18. Notices. Any notice to be given hereunder will be in writing and will be deemed given when delivered personally, sent by courier or registered or certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give notice hereunder in writing.

To the Executive at:

Joseph B. Armes  
6810 Mimosa Lane  
Dallas, Texas 75230

To the Company at:

CSW Industrials, Inc.  
5400 Lyndon B. Johnson Freeway, Suite 1300  
Dallas, Texas 75240  
Attention: Board of Directors

Any notice delivered personally or by courier under this Section 18 will be deemed given on the date delivered.

19. Severability. If any provision of this Agreement or the application of any such provision to any party or circumstances will be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, will not be affected thereby, and each provision hereof will be validated and will be enforced to the fullest extent permitted by law.

20. Governing Law. This Agreement will be governed by and construed under the internal laws of the State of Texas, without regard to its conflict of laws principles.

21. Jurisdiction and Venue. This Agreement will be deemed performable by all parties in, and jurisdiction and venue will exclusively be in the state or federal courts located in Dallas County, Texas. The Executive and the Company hereby consent to the personal jurisdiction of these courts and waive any objections that such venue is objectionable or improper.

22. Expenses. If any dispute should arise under this Agreement between the Company and the Executive, the Company shall pay (promptly upon demand by the Executive accompanied by reasonable evidence of incurrence) all reasonable expenses (including attorneys' fees) incurred by Executive in connection with such dispute if the Executive should prevail in such dispute.

23. Headings. All descriptive headings of sections and paragraphs in this Agreement are intended solely for convenience, and no provision of this Agreement is to be construed by reference to the heading of any section or paragraph.



24. Withholding. All payments to the Executive under this Agreement will be reduced by all applicable withholding required by federal, state or local law.

25. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

26. Section 409A of the Code.

(a) Notwithstanding any other provision to the contrary, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of “deferred compensation” (as such term is defined in Section 409A of the Code and the Treasury Regulations promulgated thereunder) upon or following a termination of employment unless such termination is also a “separation from service” from the Company within the meaning of Section 409A of the Code and Section 1.409A-1(h) of the Treasury Regulations and, for purposes of any such provision of this Agreement, references to a “separation,” “termination,” “termination of employment” or like terms shall mean “separation from service.”

(b) It is intended that (i) each payment or installment of payments provided under this Agreement will be a separate “payment” for purposes of Section 409A of the Code and (ii) that the payments will satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Code, including those provided under Treasury Regulations 1.409A-1(b)(4) (regarding short-term deferrals), 1.409A-1(b)(9)(iii) (regarding the two-times, two-year exception), and 1.409A-1(b)(9)(v) (regarding reimbursements and other separation pay). Notwithstanding anything to the contrary in this Agreement, if (i) on the date the Executive’s employment with the Company terminates or at such other time that is relevant under Section 409A of the Code, the Company determines that the Executive is a “specified employee” (as such term is defined under Treasury Regulation 1.409A-1(i)(1) of the Company and (ii) the Company determines that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Section 409A(a)(1)(B) of the Code or any other taxes or penalties imposed under Section 409A of the Code if provided at the time otherwise required under this Agreement, then such payments will be delayed until the date that is six months after the date of the Executive’s “separation from service” (as such term is defined under Treasury Regulation 1.409A-1(h)) with the Company or, if earlier, the date of the Executive’s death. Any payments delayed pursuant to this Section 26(b) will be made, without interest, in a lump sum on the first day of the seventh month following the Executive’s “separation from service” (as such term is defined under Treasury Regulation 1.409A-1(h)) or, if earlier, the date of the Executive’s death and any remaining payments required to be made under this Agreement will be paid upon the schedule otherwise applicable to such payments under the Agreement.

(c) Notwithstanding any other provision to the contrary, in no event shall any payment under this Agreement that constitutes “deferred compensation” for purposes of Section 409A of the Code and the Treasury Regulations promulgated thereunder be subject to offset by any other amount unless otherwise permitted by Section 409A of the Code.

(d) It is intended that the Agreement, to the extent practicable, comply and be interpreted in accordance with Section 409A of the Code, and the Company shall, as necessary, adopt such conforming amendments as are necessary to comply with Section 409A of the Code without reducing the benefits payable hereunder without the express written consent of the Executive.

(e) To the extent that any reimbursement, fringe benefit or other similar plan or arrangement in which the Executive participates during the term of Executive's employment under this Agreement or thereafter provides for a "deferral of compensation" within the meaning of Section 409A of the Code, (i) the amount eligible for reimbursement or payment under such plan or arrangement in one calendar year may not affect the amount eligible for reimbursement or payment in any other calendar year (except that a plan providing medical or health benefits may impose a generally applicable limit on the amount that may be reimbursed or paid), (ii) subject to any shorter time periods provided herein or the applicable plans or arrangements, any reimbursement or payment of an expense under such plan or arrangement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred and (iii) any such reimbursement or payment may not be subject to liquidation or exchange for another benefit, all in accordance with Section 1.409A-3(i)(1)(iv) of the Treasury Regulations.

(f) By accepting this Agreement, the Executive hereby agrees and acknowledges that the Company does not make any representations with respect to the application of Section 409A of the Code to any tax, economic or legal consequences of any payments payable to the Executive hereunder. Further, by the acceptance of this Agreement, the Executive acknowledges that (i) the Executive has obtained independent tax advice regarding the application of Section 409A of the Code to the payments due to the Executive hereunder, (ii) the Executive retains full responsibility for the potential application of Section 409A of the Code to the tax and legal consequences of payments payable to the Executive hereunder and (iii) the Company shall not indemnify or otherwise compensate the Executive for any violation of Section 409A of the Code that may occur in connection with this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement effective as of date set forth above.

CSW INDUSTRIALS, INC.

By: /s/ Christopher J. Mudd

Name: Christopher J. Mudd

Title: Senior Vice President, Operations, President and Chief  
Operating Officer

/s/ Joseph B. Armes

Joseph B. Armes

---

**Schedule A**

**Current Board Positions**

Capital Southwest Corporation  
RSP Permian, Inc.  
American Beacon Mutual Funds (Trustee)

A-1

## CSW INDUSTRIALS, INC.

## Form of Time Vested Restricted Share Award Agreement

Date of Grant: \_\_\_\_\_

Name of Participant: \_\_\_\_\_

Number of Restricted Shares: \_\_\_\_\_

CSW Industrials, Inc. (the "Company") hereby awards to [\_\_\_\_\_] (the "Participant") the number of shares of the presently authorized but unissued Common Shares, \$0.01 par value per share, of the Company (the "Restricted Shares") set forth above pursuant to the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan").

Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan. The terms and conditions of the Restricted Shares granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

### 1. No Right to Continued Employee Status

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company, or any Subsidiary or Affiliate, as applicable, to terminate such relationship.

### 2. Vesting of Restricted Shares

- (a) The Restricted Shares granted hereby shall vest in three (3) equal annual installments beginning on [\_\_\_\_\_] if the Participant remains an employee of the Company, or one of its Subsidiaries or Affiliates, on the applicable anniversary date that each installment vests. Subject to Section 2(b) below, all unvested Restricted Shares will be forfeited and cancelled upon the Participant's termination of service from the Company and all Subsidiaries and Affiliates, as applicable, on the date of such termination.
- (b) Notwithstanding anything contained in this Award Agreement to the contrary, any unvested Restricted Shares granted pursuant to this Award Agreement shall automatically vest in full upon the occurrence of any of the following events: (i) a Change in Control, (ii) the Participant's termination of service from the Company and all Subsidiaries and Affiliates, as applicable, due to his or her Disability, and (iii) the Participant's termination of service from the Company and all Subsidiaries and Affiliates, as applicable, due to his or her death. For purposes of this Award Agreement, "Disability" means the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

### **3. Retention of Certificates**

The Company will retain the certificate(s) representing the Restricted Shares granted to the Participant pursuant to this Award Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Shares have terminated. Within a reasonable time thereafter, the Company will deliver to the Participant certificate(s) representing such Restricted Shares free of any applicable restrictions.

### **4. Tax Election**

Within thirty (30) days after the Date of Grant, the Participant may make an election with the Internal Revenue Service under Section 83(b) of the Code and the regulations promulgated thereunder.

### **5. Restrictions on Transfer**

The Restricted Shares granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such Restricted Shares are fully vested.

### **6. Dividends and Other Distributions**

The Participant shall be entitled to receive cash dividends or cash distributions declared and paid with respect to the Restricted Shares. Any such cash dividends or cash distributions shall be paid within thirty (30) days after the corresponding cash dividends or cash distributions are paid to the Company's other Stockholders. The Participant shall also have the right to receive stock dividends or stock distributions with respect to the Restricted Shares. With respect to any unvested Restricted Shares, the stock dividends or stock distributions shall likewise be restricted and shall vest at the same time as the Restricted Shares vest to which such stock dividend or stock distribution relates.

### **7. Voting of Restricted Shares**

The Participant shall be entitled to vote the Restricted Shares subject to the rules and procedures adopted by the Committee for this purpose.

### **8. Withholding**

To the extent that the Company is required to withhold Federal, state or other taxes in connection with the lapse of the restrictions hereunder on the Common Shares, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the obligation of the Company to make any delivery of Common Shares to the Participant that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld.

## **9. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided for his or her employee records.

## **10. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

## **11. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **12. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **13. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to the Restricted Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **14. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement on as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name: [\_\_\_\_\_]

Address:



## CSW INDUSTRIALS, INC.

**Form of Performance Vested Restricted Share Award Agreement**

Date of Grant: \_\_\_\_\_

Name of Participant: \_\_\_\_\_

Number of Restricted Shares: \_\_\_\_\_

Performance Period: The period beginning on October 1, 2015 and ending on March 31, 2018.

CSW Industrials, Inc. (the "Company") hereby awards to [\_\_\_\_\_] (the "Participant") the number of shares of the presently authorized but unissued Common Shares, \$0.01 par value per share, of the Company (the "Restricted Shares") set forth above pursuant to the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan").

Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan. The terms and conditions of the Restricted Shares granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company, or any Subsidiary or Affiliate, as applicable, to terminate such relationship.

**2. Vesting of Restricted Shares**

- (a) The Restricted Shares granted hereby are contingently awarded, and the Participant's right to receive all, or any portion of, the Restricted Shares is dependent on the achievement of the Management Objectives set forth on Exhibit A to this Award Agreement. The Restricted Shares granted hereby shall vest as provided on Exhibit A hereto, on the last day of the Performance Period, if the Participant remains an employee of the Company, or one of its Subsidiaries and Affiliates, as applicable, on such date. Subject to Section 2(c) below, in the event of the Participant's termination of service from the Company, or a Subsidiary or an Affiliate, as applicable, prior to the last day of the Performance Period, the Restricted Shares granted pursuant to this Award Agreement will be forfeited and cancelled on the date of such termination of service.
- (b) Any portion of the Restricted Shares that does not vest on the last day of the Performance Period as provided in Section 2(a) above or Section 2(c) below, will be forfeited and cancelled on the last day of the Performance Period.

- (c) Notwithstanding anything contained in this Award Agreement to the contrary, the Restricted Shares granted pursuant to this Award Agreement shall automatically vest as provided in Exhibit A hereto upon the occurrence of any of the following events: (i) a Change in Control, (ii) the Participant's termination of service from the Company, and all Subsidiaries and Affiliates, as applicable, due to his or her Disability, and (iii) the Participant's termination of service from the Company, and all Subsidiaries and Affiliates, as applicable, due to his or her death. "Disability" means the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

### **3. Retention of Certificates**

The Company will retain the certificate(s) representing the Restricted Shares granted to the Participant pursuant to this Award Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Shares have terminated. Within a reasonable time thereafter, the Company will deliver to the Participant certificate(s) representing such Restricted Shares free of any applicable restrictions.

### **4. Tax Election**

Within thirty (30) days after the Date of Grant, the Participant may make an election with the Internal Revenue Service under Section 83(b) of the Code and the regulations promulgated thereunder.

### **5. Restrictions on Transfer**

The Restricted Shares granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such Restricted Shares are fully vested.

### **6. Dividends and Other Distributions**

The Participant shall be entitled to receive cash dividends or cash distributions declared and paid with respect to the Restricted Shares. The Participant shall also have the right to receive stock dividends or stock distributions with respect to the Restricted Shares. With respect to any unvested Restricted Shares, all dividends or distributions shall likewise be restricted and shall vest in the same manner as the Restricted Shares as to which such dividend or distribution relates.

### **7. Voting of Restricted Shares**

The Participant shall be entitled to vote the Restricted Shares subject to the rules and procedures adopted by the Committee for this purpose.

### **8. Withholding**

To the extent that the Company is required to withhold Federal, state or other taxes in connection with the lapse of restrictions hereunder on the Common Shares, and the amounts available to the Company are insufficient for such withholding, it shall be a condition to the obligation of the Company to make any delivery Common Shares to the Participant that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld.

## **9. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided for his or her employee records.

## **10. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

## **11. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **12. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **13. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to the Restricted Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **14. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name: [\_\_\_\_\_]

Address:

## Exhibit A

### Management Objectives

1. For purposes of this Award Agreement, “Management Objectives” shall mean the Company’s Total Shareholder Return for the Performance Period relative to the Total Shareholder Return of the Peer Group for the Performance Period. For purposes of this Exhibit A:

(a) “Market Value per Share” means the weighted average closing price of a Common Share or a share of common stock of the Peer Group member, as applicable, as reported on the NASDAQ Stock Market, LLC during the twenty (20) trading days preceding (and inclusive of) the date of determination of the Total Shareholder Return; provided, however, that in the event the Performance Period ends early as a result of a Change in Control, or termination of service due to the Participant’s death or Disability, “Market Value per Share” will mean the weighted average closing price of a Common Share or a share of common stock of the Peer Group member, as applicable, of the as reported during the twenty (20) trading days preceding (and exclusive of) the date of such Change in Control or termination of service. The Market Value per Share will be equitably adjusted for stock splits and other similar corporate actions affecting the Common Shares or the common stock of the Peer Group member, as applicable.

(b) “Peer Group” means the following companies:

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

If a company within the Peer Group goes through bankruptcy reorganization during the Performance Period and its equity is eliminated (or if a company within the Peer Group ceases to exist during the Performance Period), it will be deemed to be rated last of all companies in the Peer Group for calculation purposes. If the company in bankruptcy continues to have its equity traded through the end of the Performance Period, its Total Shareholder Return will be measured over the entire Performance Period and will be included in the final calculation.

If a company within the Peer Group is purchased by another company that is also within the Peer Group, the surviving company will be tracked and included in the final calculation. If a company within the Peer Group is purchased by another company that is not within the Peer Group, it will cease to be tracked and will be excluded from the final calculation.

- (c) “Total Shareholder Return” means the amount obtained by dividing (1) the sum of (a) the amount of dividends paid on the Common Shares or on the common stock of the Peer Group member, as applicable, with respect to the Performance Period, assuming dividend reinvestment, and (b) the difference between the Market Value per Share at the end and beginning of the Performance Period, by (2) the Market Value per Share at the beginning of the Performance Period.

2. At the end of the Performance Period, the number of Restricted Shares, if any, that will vest will be determined by: (i) determining the Company’s Total Shareholder Return percentile quartile for the applicable Performance Period, as set forth in the left hand column of the table below (expressed in terms of the Company’s ranking within the Peer Group based upon the Company’s Total Shareholder Return relative to the Total Shareholder Return of the Peer Group for the Performance Period) and (ii) multiplying the number of Restricted Shares granted pursuant to this Award Agreement by the percentage in the right hand column of the table below that corresponds to such percentile quartile.

<u>Company’s Total Shareholder Return Performance Ranking Relative to the Peer Group</u>	<u>Percent of Restricted Shares Earned</u>
First quartile	100%
Second quartile	75%
Third quartile	50%
Fourth quartile	0%

## CSW INDUSTRIALS, INC.

## Form of Restricted Share Award Agreement for Directors

Date of Grant: [ \_\_\_\_\_ ]

Name of Participant: \_\_\_\_\_

Number of Restricted Shares: \_\_\_\_\_

CSW Industrials, Inc. (the "Company") hereby awards to [ \_\_\_\_\_ ] (the "Participant") the number of shares of the presently authorized but unissued Common Shares, \$0.01 par value per share, of the Company (the "Restricted Shares") set forth above pursuant to the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan").

Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan. The terms and conditions of the Restricted Shares granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

### 1. No Right to Continued Service on the Board

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her status as a member of the Board, or to interfere with the right of the Company to terminate such relationship.

### 2. Vesting of Restricted Shares

- (a) The Restricted Shares granted hereby shall vest on the date of the first Annual Meeting that occurs after the Date of Grant if the Participant remains a member of the Board on the date of such Annual Meeting. Subject to Section 2(b) below, all unvested Restricted Shares will be forfeited and cancelled upon the Participant's termination of service from the Board on the date of such termination. For purposes of this Award Agreement, "Annual Meeting" means the Company's annual meeting of Stockholders.
- (b) Notwithstanding anything contained in this Award Agreement to the contrary, any unvested Restricted Shares granted pursuant to this Award Agreement shall automatically vest in full upon the occurrence of any of the following events: (i) a Change in Control, (ii) the Participant's termination of service from the Board due to his or her Disability, and (iii) the Participant's termination of service from the Board due to his or her death. For purposes of this Award Agreement, "Disability" means the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

### **3. Retention of Certificates**

The Company will retain the certificate(s) representing the Restricted Shares granted to the Participant pursuant to this Award Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Shares have terminated. Within a reasonable time thereafter, the Company will deliver to the Participant certificate(s) representing such Restricted Shares free of any applicable restrictions.

### **4. Tax Election**

Within thirty (30) days after the Date of Grant, the Participant may make an election with the Internal Revenue Service under Section 83(b) of the Code and the regulations promulgated thereunder.

### **5. Restrictions on Transfer**

The Restricted Shares granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such Restricted Shares are fully vested.

### **6. Dividends and Other Distributions**

The Participant shall be entitled to receive cash dividends or cash distributions declared and paid with respect to the Restricted Shares. Any such cash dividends or cash distributions shall be paid within thirty (30) days after the corresponding cash dividends or cash distributions are paid to the Company's other Stockholders. The Participant shall also have the right to receive stock dividends or stock distributions with respect to the Restricted Shares. With respect to any unvested Restricted Shares, the stock dividends or stock distributions shall likewise be restricted and shall vest at the same time as the Restricted Shares vest to which such stock dividend or stock distribution relates.

### **7. Voting of Restricted Shares**

The Participant shall be entitled to vote the Restricted Shares subject to the rules and procedures adopted by the Committee for this purpose.

### **8. Withholding**

To the extent that the Company is required to withhold Federal, state or other taxes in connection with the lapse of the restrictions hereunder on the Common Shares, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the obligation of the Company to make any delivery of Common Shares to the Participant that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld.

### **9. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided for his or her employee records.



## **10. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

## **11. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **12. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **13. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to the Restricted Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **14. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement on as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name: [\_\_\_\_\_]

Address:

## CSW INDUSTRIALS, INC.

**Form of Incentive Stock Option Right Award Agreement**

WHEREAS, Capital Southwest Corporation ("Capital Southwest") and [\_\_\_\_\_] (the "Participant") currently are parties to an Incentive Stock Option Agreement, dated [\_\_\_\_\_] , whereby Capital Southwest granted an incentive option to purchase shares of common stock of Capital Southwest (the "Capital Southwest Award") to the Participant under the Capital Southwest Corporation 2009 Stock Incentive Plan (the "Capital Southwest Plan");

WHEREAS, effective as of 11:59 p.m. Central Time on September 30, 2015, Capital Southwest separated its industrial products, coatings, sealants, and adhesives and specialty chemicals businesses from its other businesses through a spin-off of those businesses to its stockholders, which resulted in the distribution of 100% of the outstanding stock in CSW Industrials, Inc. (the "Company") to the holders of common stock of Capital Southwest (the "Share Distribution");

WHEREAS, the Capital Southwest Award is being adjusted in connection with the Share Distribution and such adjustment includes granting an incentive option to purchase shares of the common stock of the Company (the "Replacement Award");

WHEREAS, the Board of Directors of the Company has approved granting Replacement Awards in connection with the Share Distribution; and

WHEREAS, pursuant to Section 23 of the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan"), the Company is authorized to issue Replacement Awards to any holder of an equity compensation award granted under the Capital Southwest Plan that remains outstanding immediately prior to the Share Distribution.

NOW, THEREFORE, the Company hereby grants a Replacement Award to the Participant as follows:

Date of Grant: September 30, 2015  
Name of Participant: [\_\_\_\_\_]   
Number of Common Shares: [\_\_\_\_\_]   
Option Price: \$[\_\_\_\_\_] per Common Share   
Expiration Date: [\_\_\_\_\_]   
Vesting Schedule: [\_\_\_\_\_]

The Company hereby awards to the Participant an Option Right under the Plan, for the Option Price and number of Common Shares set forth above, effective as of the Date of Grant specified above. This Option Right is intended to be, and shall be treated as, an “incentive stock option” within the meaning of Section 422 of the Code.

Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan. The terms and conditions of the Option Right granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company or its Subsidiaries, as applicable, to terminate such relationship.

**2. Vesting of the Option Right**

- (a) Each installment of the Option Right shall vest and become exercisable in accordance with the Vesting Schedule set forth above if the Participant remains employed by the Company or a Subsidiary through the applicable anniversary date that such installment vests. Any unvested portion of the Option Right shall be forfeited immediately upon the Participant’s termination of employment with the Company and all Subsidiaries.
- (b) Notwithstanding anything in this Award Agreement or the Plan to the contrary, the Option Right shall automatically vest in full and become exercisable upon a Change in Control.
- (c) Notwithstanding anything in this Award Agreement or the Plan to the contrary, employment with Capital Southwest or one of its subsidiaries after the Share Distribution will be deemed to be employment with the Company under the Plan, and a termination of service from Capital Southwest and all of its subsidiaries after the Share Distribution will be deemed to be a termination of service from the Company under the Plan, notwithstanding that Capital Southwest ceases to be an Affiliate of the Company.

### 3. Exercise; Transferability

- (a) Timing of Exercise. Any portion of the Option Right which vests and becomes exercisable in accordance with Section 2 above, shall remain exercisable as provided in this Section 3(a).
- a. If the Participant's employment with the Company and all Subsidiaries terminates due to his or her death or Disability, the vested portion of this Option Right shall remain exercisable for six (6) months following such termination of employment, or if earlier, until the Expiration Date. For purposes of this Award Agreement, "Disability" shall have the meaning set forth in Section 22(e)(3) of the Code.
- b. In the event of a Change in Control, this Option Right shall remain exercisable until the Expiration Date.
- c. If the Company or a Subsidiary terminates the Participant's employment for Cause, the unexercised, vested portion of the Option Right shall expire immediately upon the date of such termination. For purposes of this Award Agreement, "Cause" means with respect to the Participant (A) the commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment to the Participant to the detriment of the Company or any Subsidiary; (B) conviction of, or entering into a plea of *nolo contendere* to, a felony; (C) repeated failures to perform his or her responsibilities that are demonstrably willful and deliberate, provided that such failures have continued for more than ten (10) days following written notice from the Company or a Subsidiary of its intent to terminate his or her employment based on such failure; (D) intentional, repeated or continuing violation of any of the applicable policies or procedures of the Company or any Subsidiary that occurs or continues after notice to the Participant that he or she has violated such policy or procedure; or (E) any material breach of a written covenant or agreement with the Company or any Subsidiary, including the terms of the Plan or any material breach of fiduciary duty to the Company, or any Subsidiary. For purposes of this definition, the Participant shall be considered to have been discharged for Cause if the Company or any Subsidiary determines within thirty (30) days after his or her resignation or discharge that discharge for Cause was warranted.
- d. If the Participant's employment with the Company and all Subsidiaries terminates for any reason other than as described in clauses (i), (ii), or (iii) above, the vested portion of this Option Right shall remain exercisable for one (1) month following the date of such termination, or if earlier, until the Expiration Date.
- e. In the event the Participant's employment with the Company and all Subsidiaries does not terminate prior to the Expiration Date, the vested portion of this Option Right shall remain exercisable until the Expiration Date.

- (b) Exercise Method. This Option Right shall be exercised by (i) delivery to the Company of a written notice of exercise stating the number of Common Shares being purchased (in whole Common Shares only) and such other information set forth on the form of Notice of Exercise attached to this Award Agreement as Exhibit A and (ii) a check or cash in the amount of the Option Price of the Shares covered by the notice (or such other consideration as has been approved by the Committee consistent with the Plan).
- (c) Transferability. Unless otherwise required by law, this Option Right shall not be assignable or transferable other than by will or by the laws of descent and distribution, and may be exercised during the lifetime of the Participant only by the Participant (or the Participant's guardian or legal representative).

#### **4. Modification, Extension and Renewal of Option Right**

The Committee may modify, extend or renew this Option Right or accept its surrender (to the extent not yet exercised) and authorize the granting of a new option in substitution for it (to the extent not yet exercised), subject at all times to the Plan, the Code, and other applicable laws. Notwithstanding the foregoing provisions of this Section 4, no modification shall, without the consent of the Participant, alter to the Participant's detriment or impair any rights of Participant under this Award Agreement except to the extent permitted under the Plan.

#### **5. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided by the Participant for his or her employee records.

#### **6. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

#### **7. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

---

**8. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

**9. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to this Option Right and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**10. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

**EXHIBIT A**

**CSW INDUSTRIALS, INC.**

**INCENTIVE STOCK OPTION RIGHT EXERCISE FORM**

Date: \_\_\_\_\_

Attention: \_\_\_\_\_

The undersigned hereby elects to exercise all or a portion of the Option Right issued to him/her by CSW Industrials, Inc. (the "Company") on September 30, 2015 and to purchase \_\_\_\_\_ shares of common stock of the Company (the "Common Shares") at an exercise price of \_\_\_\_\_ Dollars (\$\_\_\_\_) per Common Share or an aggregate purchase price of \_\_\_\_\_ Dollars (\$\_\_\_\_) (the "Option Price"). Pursuant to the terms of the Option Right, the undersigned has delivered the Option Price herewith in full in cash or \_\_\_\_\_.

Please issue a certificate or certificates representing said Common Shares in the name of the undersigned.

By: \_\_\_\_\_

Typed Name: \_\_\_\_\_

Address:



## CSW INDUSTRIALS, INC.

**Form of Non-Qualified Stock Option Right Award Agreement**

WHEREAS, Capital Southwest Corporation ("Capital Southwest") and [\_\_\_\_\_] (the "Participant") currently are parties to a Non-Qualified Stock Option Agreement, dated [\_\_\_\_\_] , whereby Capital Southwest granted a non-qualified option to purchase shares of common stock of Capital Southwest (the "Capital Southwest Award") to the Participant under the Capital Southwest Corporation 2009 Stock Incentive Plan (the "Capital Southwest Plan");

WHEREAS, effective as of 11:59 p.m. Central Time on September 30, 2015, Capital Southwest separated its industrial products, coatings, sealants, and adhesives and specialty chemicals businesses from its other businesses through a spin-off of those businesses to its stockholders, which resulted in the distribution of 100% of the outstanding stock in CSW Industrials, Inc. (the "Company") to the holders of common stock of Capital Southwest (the "Share Distribution");

WHEREAS, the Capital Southwest Award is being adjusted in connection with the Share Distribution and such adjustment includes granting a non-qualified option to purchase shares of the common stock of the Company (the "Replacement Award");

WHEREAS, the Board of Directors of the Company has approved granting Replacement Awards in connection with the Share Distribution; and

WHEREAS, pursuant to Section 23 of the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan"), the Company is authorized to issue Replacement Awards to any holder of an equity compensation award granted under the Capital Southwest Plan that remains outstanding immediately prior to the Share Distribution.

NOW, THEREFORE, the Company hereby grants a Replacement Award to the Participant as follows:

Date of Grant: September 30, 2015  
Name of Participant: [\_\_\_\_\_]   
Number of Common Shares: [\_\_\_\_\_]   
Option Price: \$[\_\_\_\_\_] per Common Share   
Expiration Date: [\_\_\_\_\_]   
Vesting Schedule: [\_\_\_\_\_]

The Company hereby awards to the Participant an Option Right under the Plan, for the Option Price and number of Common Shares set forth above, effective as of the Date of Grant specified above. This Option Right is not intended to be, and shall not be treated as, an “incentive stock option” within the meaning of Section 422 of the Code. Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan.

The terms and conditions of the Option Right granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company or its Subsidiaries, as applicable, to terminate such relationship.

**2. Vesting of the Option Right**

- (a) Each installment of the Option Right shall vest and become exercisable in accordance with the Vesting Schedule set forth above if the Participant remains employed by the Company or a Subsidiary through the applicable anniversary date that such installment vests. Any unvested portion of the Option Right shall be forfeited immediately upon the Participant’s termination of employment with the Company and all Subsidiaries.
- (b) Notwithstanding anything in this Award Agreement or the Plan to the contrary, the Option Right shall automatically vest in full and become exercisable upon a Change in Control.
- (c) Notwithstanding anything in this Award Agreement or the Plan to the contrary, employment with Capital Southwest, or one of its subsidiaries, as applicable, after the Share Distribution will be deemed to be employment with the Company under the Plan, and a termination of service from Capital Southwest and all of its subsidiaries after the Share Distribution will be deemed to be a termination of service from the Company under the Plan, notwithstanding that Capital Southwest ceases to be an Affiliate of the Company.

### 3. Exercise; Transferability

- (a) **Timing of Exercise.** Any portion of the Option Right which vests and becomes exercisable in accordance with Section 2 above, shall remain exercisable as provided in this Section 3(a).
- (i) If the Participant's employment with the Company and all Subsidiaries terminates due to his or her death or Disability, the vested portion of this Option Right shall remain exercisable for six (6) months following such termination of employment, or if earlier, until the Expiration Date. For purposes of this Award Agreement, "Disability" shall have the meaning set forth in Section 22(e)(3) of the Code.
- (ii) In the event of a Change in Control, this Option Right shall remain exercisable until the Expiration Date.
- (iii) If the Company or a Subsidiary terminates the Participant's employment for Cause, the unexercised, vested portion of the Option Right shall expire immediately upon the date of such termination. For purposes of this Award Agreement, "Cause" means with respect to the Participant (A) the commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment to the Participant to the detriment of the Company or any Subsidiary; (B) conviction of, or entering into a plea of *nolo contendere* to, a felony; (C) repeated failures to perform his or her responsibilities that are demonstrably willful and deliberate, provided that such failures have continued for more than ten (10) days following written notice from the Company or a Subsidiary of its intent to terminate his or her employment based on such failure; (D) intentional, repeated or continuing violation of any of the applicable policies or procedures of the Company or its Subsidiaries, that occurs or continues after notice to the Participant that he or she has violated such policy or procedure; or (E) any material breach of a written covenant or agreement with the Company or its Subsidiaries, including the terms of the Plan or any material breach of fiduciary duty to the Company or its Subsidiaries. For purposes of this definition, the Participant shall be considered to have been discharged for Cause if the Company or a Subsidiary determines within thirty (30) days after his or her resignation or discharge that discharge for Cause was warranted.
- (iv) If the Participant's employment with the Company and all Subsidiaries for any reason other than as described in clauses (i), (ii), or (iii) above, the vested portion of this Option Right shall remain exercisable for one (1) month following the date of such termination of employment, or if earlier, until the Expiration Date.
- (v) In the event the Participant's employment with the Company and all Subsidiaries does not terminate prior to the Expiration Date, the vested portion of this Option Right shall remain exercisable until the Expiration Date.

- (b) **Exercise Method.** This Option Right shall be exercised by (i) delivery to the Company of a written notice of exercise stating the number of Common Shares being purchased (in whole Common Shares only) and such other information set forth on the form of Notice of Exercise attached to this Award Agreement as Exhibit A and (ii) a check or cash in the amount of the Option Price of the Shares covered by the notice (or such other consideration as has been approved by the Board of Directors of the Company consistent with the Plan), plus any applicable withholding taxes unless the Participant exercises the Option Right through a cashless exercise in accordance with the Plan and the Committee's rules and procedures governing cashless exercises. Any cashless exercise permitted hereunder will be subject to any applicable limitations or restrictions imposed under the Sarbanes-Oxley Act of 2002.
- (c) **Transferability.** Unless otherwise required by law, this Option Right shall not be assignable or transferable other than by will or by the laws of descent and distribution, and may be exercised during the lifetime of the Participant only by the Participant (or the Participant's guardian or legal representative).

#### **4. Taxation Upon Exercise of Option Right**

The Participant understands that, upon exercise of this Option Right, Participant will recognize income, for Federal and state income tax purposes, in an amount equal to the amount by which the Market Value per Common Share, determined as of the date of exercise, exceeds the Option Price per Common Share. The acceptance of the Common Shares by the Participant shall constitute an agreement by the Participant to report such income in accordance with then applicable law. Withholding for Federal or state income and employment tax purposes shall be made, if and as required by law, from the Participant's then current compensation, or, if such current compensation is insufficient to satisfy withholding tax liability, the Company may require the Participant to make a cash payment to cover the liability as a condition of the exercise of the Option Right; however, in the case of a cashless exercise, the Participant may use Common Shares that are the subject of such exercise to pay for any or all such tax liability, all in accordance with the Committee's rules and procedures governing such process. Any use of Common Shares to pay for any tax liability will be subject to any applicable limitations or restrictions imposed under the Sarbanes-Oxley Act of 2002.

#### **5. Modification, Extension and Renewal of Option Right**

The Committee may modify, extend or renew this Option Right or accept its surrender (to the extent not yet exercised) and authorize the granting of a new option in substitution for it (to the extent not yet exercised), subject at all times to the Plan, the Code, and other applicable laws. Notwithstanding the foregoing provisions of this Section 5, no modification shall, without the consent of the Participant, alter to the Participant's detriment or impair any rights of Participant under this Award Agreement except to the extent permitted under the Plan.

## **6. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided by the Participant for his or her employee records.

## **7. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

## **8. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **9. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **10. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to this Option Right and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **11. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement on as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name:

Address:

**EXHIBIT A**

**CSW INDUSTRIALS, INC.**

**NON-QUALIFIED STOCK OPTION RIGHT EXERCISE FORM**

Date: \_\_\_\_\_

Attention: \_\_\_\_\_

The undersigned hereby elects to exercise all or a portion of the Option Right issued to him/her by CSW Industrials, Inc. (the "Company") on September 30, 2015 and to purchase \_\_\_\_\_ shares of common stock of the Company (the "Common Shares") at an exercise price of \_\_\_\_\_ Dollars (\$\_\_\_\_) per Common Share or an aggregate purchase price of \_\_\_\_\_ Dollars (\$\_\_\_\_) (the "Option Price"). Pursuant to the terms of the Option Right, the undersigned has delivered the Option Price herewith in full in cash or \_\_\_\_\_.

Please issue a certificate or certificates representing said Common Shares in the name of the undersigned.

By: \_\_\_\_\_

Typed Name: \_\_\_\_\_

Address:

## CSW INDUSTRIALS, INC.

**Form of Time Vested Restricted Share Award Agreement**

WHEREAS, Capital Southwest Corporation ("Capital Southwest") and [\_\_\_\_\_] (the "Participant") currently are parties to a Restricted Stock Agreement, dated [\_\_\_\_\_] , whereby Capital Southwest granted restricted stock to the Participant (the "Capital Southwest Award") under the Capital Southwest Corporation 2010 Restricted Stock Award Plan (the "Capital Southwest Plan");

WHEREAS, effective as of 11:59 p.m. Central Time on September 30, 2015, Capital Southwest separated its industrial products, coatings, sealants, and adhesives and specialty chemicals businesses from its other businesses through a spin-off of those businesses to its stockholders, which resulted in the distribution of 100% of the outstanding stock in CSW Industrials, Inc. (the "Company") to the holders of common stock of Capital Southwest (the "Share Distribution");

WHEREAS, the Capital Southwest Award is being adjusted in connection with the Share Distribution and such adjustment includes granting restricted stock of the Company (the "Replacement Award");

WHEREAS, the Board of Directors of the Company has approved granting Replacement Awards in connection with the Share Distribution; and

WHEREAS, pursuant to Section 23 of the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan"), the Company is authorized to issue Replacement Awards to any holder of an equity compensation award granted under the Capital Southwest Plan that remains outstanding immediately prior to the Share Distribution.



NOW, THEREFORE, the Company hereby grants a Replacement Award to the Participant as follows:

Date of Grant: September 30, 2015  
Name of Participant: [\_\_\_\_\_]   
Number of Restricted Shares: [\_\_\_\_\_]   
Vesting Schedule: [\_\_\_\_\_]

The Company hereby awards to the Participant the number of shares of the presently authorized but unissued Common Shares, \$0.01 par value per share, of the Company (the "Restricted Shares") set forth above pursuant to the Plan, effective as of the Date of Grant specified above. Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan.

The terms and conditions of the Restricted Shares granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company or any Subsidiary to terminate such relationship.

**2. Vesting of Restricted Shares**

- (a) Subject to Section 2(b) below, the Restricted Shares shall vest in accordance with the Vesting Schedule set forth above if the Participant remains employed by the Company or a Subsidiary on each vesting date.
- (b) Notwithstanding anything in this Award Agreement or the Plan to the contrary, the Restricted Shares shall automatically vest in full upon either of the following events: (i) a Change in Control; or (ii) the Participant's termination of service from the Company and all Subsidiaries due to his or her Disability or death. For purposes hereto, "Disability" shall have the meaning set forth in Section 22(e)(3) of the Code.
- (c) Notwithstanding anything in this Award Agreement or the Plan to the contrary, employment with Capital Southwest or one of its subsidiaries after the Share Distribution will be deemed to be employment with the Company under the Plan, and a termination of service from Capital Southwest and all of its subsidiaries after the Share Distribution will be deemed to be a termination of service from the Company under the Plan, notwithstanding that Capital Southwest ceases to be an Affiliate of the Company.

### **3. Retention of Certificates**

The certificate(s) representing the Restricted Shares granted hereby will be stamped or otherwise imprinted with the legend required by the Plan with respect to any applicable restrictions on the sale or transfer of such shares, and the stock transfer records of the Company will reflect stop transfer instructions with respect to such shares. At the election of the Company, the Company may retain the certificate(s) representing the Restricted Shares granted to the Participant pursuant to this Award Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Shares have terminated or are removed by the Board. Within a reasonable time thereafter, the Company will deliver to the Participant a new certificate representing such shares, free of the legend referred to herein. The issuance of such certificate shall not affect any restrictions upon the transferability of such shares pursuant to applicable law or otherwise.

### **4. Restrictions on Transfer**

Restricted Shares granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such shares are fully vested.

### **5. Dividends and Other Distributions**

The Participant shall be entitled to receive cash dividends or cash distributions declared and paid with respect to the Restricted Shares. Any such cash dividends or cash distributions shall be paid within thirty (30) days after the corresponding cash dividends or cash distributions are paid to the Company's other Stockholders. The Participant shall also have the right to receive stock dividends or stock distributions with respect to the Restricted Shares. With respect to any unvested Restricted Shares, the stock dividends or stock distributions shall likewise be restricted and shall vest on the same Vesting Schedule as the Restricted Shares as to which such stock dividend or stock distribution relates.

### **6. Voting of Restricted Shares**

The Participant shall be entitled to vote the Restricted Shares subject to the rules and procedures adopted by the Committee for this purpose.

### **7. Withholding**

To the extent that the Company is required to withhold Federal, state or other taxes in connection with the lapse of the restrictions hereunder on the Common Shares, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the obligation of the Company to make any delivery of Common Shares to the Participant that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld.

### **8. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided for his or her employee records.

## **9. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

## **10. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **11. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **12. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to the Restricted Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **13. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement on as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name:

Address:

## CSW INDUSTRIALS, INC.

**Form of Non-Qualified Stock Option Right Award Agreement**

WHEREAS, Capital Southwest Corporation (“Capital Southwest”) and [\_\_\_\_\_] (the “Participant”) currently are parties to a Non-Qualified Stock Option Agreement, dated August 28, 2014, which was amended and restated on September 9, 2015, whereby Capital Southwest granted a non-qualified option to purchase shares of common stock of Capital Southwest (the “Capital Southwest Award”) to the Participant under the Capital Southwest Corporation 2009 Stock Incentive Plan (the “Capital Southwest Plan”);

WHEREAS, effective as of 11:59 p.m. Central Time on September 30, 2015, Capital Southwest separated its industrial products, coatings, sealants, and adhesives and specialty chemicals businesses from its other businesses through a spin-off of those businesses to its stockholders, which resulted in the distribution of 100% of the outstanding stock in CSW Industrials, Inc. (the “Company”) to the holders of common stock of Capital Southwest (the “Share Distribution”);

WHEREAS, the Capital Southwest Award is being adjusted in connection with the Share Distribution and such adjustment includes granting a non-qualified option to purchase shares of the common stock of the Company (the “Replacement Award”);

WHEREAS, the Board of Directors of the Company has approved granting Replacement Awards in connection with the Share Distribution; and

WHEREAS, pursuant to Section 23 of the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the “Plan”), the Company is authorized to issue Replacement Awards to any holder of an equity compensation award granted under the Capital Southwest Plan that remains outstanding immediately prior to the Share Distribution.

NOW, THEREFORE, the Company hereby grants a Replacement Award to the Participant as follows:

Date of Grant: September 30, 2015  
Name of Participant: [\_\_\_\_\_]   
Number of Common Shares: [\_\_\_\_\_]   
Option Price: \$[\_\_\_\_\_] per Common Share   
Expiration Date: August 28, 2024   
Vesting Schedule: 1/3 of the Option Right will vest and become exercisable on the Trigger Event Date; an additional 1/3 of the Option Right shall vest and become exercisable on the first anniversary of the Trigger Event Date; and the final 1/3 of the Option Right shall vest and become exercisable on the second anniversary of the Trigger Event Date

The Company hereby awards to the Participant an Option Right under the Plan, for the Option Price and number of Common Shares set forth above, effective as of the Date of Grant specified above. This Option Right is not intended to be, and shall not be treated as, an "incentive stock option" within the meaning of Section 422 of the Code.

Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan. The terms and conditions of the Option Right granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company or a Subsidiary to terminate such relationship.

**2. Vesting of the Option Right**

- (a) Each installment of the Option Right shall vest and become exercisable in accordance with the vesting schedule set forth above if the Participant remains employed by the Company or a Subsidiary, through the applicable date that such installment vests. For purposes of this Award Agreement, "Trigger Event Date" means the ninetieth (90<sup>th</sup>) day following the Distribution Date.
- (b) Notwithstanding anything in this Award Agreement or the Plan to the contrary, the Option Right shall automatically vest in full and become exercisable upon the occurrence of any of the following events following the Trigger Event Date: (i) a Change in Control; (ii) the Participant's termination of service from the Company and all Subsidiaries for Good Reason; (iii) the Participant's service is terminated by the Company and all Subsidiaries without Cause, (iv) the Participant's termination of service from the Company and all Subsidiaries due to the Participant's Disability; or (v) the Participant's termination of service from the Company and all Subsidiaries due to the Participant's death. Notwithstanding

anything to the contrary, in the event a Change in Control or a termination of service for one of the reasons described in this Section 2(b) occurs on or before the Trigger Event Date, this Option Right shall vest in full and become exercisable on the Trigger Event Date. For purposes hereof,

- (i) “Disability” shall have the meaning set forth in Section 22(e)(3) of the Code; and
- (ii) “Good Reason” means the occurrence of any of the following: (A) a material breach of the Participant’s employment agreement by the Company or a Subsidiary; (B) a reduction in the Participant’s title or a material reduction in the Participant’s duties, authorities, and/or responsibilities; (C) a material reduction in the Participant’s compensation or benefits; or (D) a requirement by the Company or a Subsidiary, without the Participant’s consent, that the Participant relocate to a location greater than thirty-five (35) miles from the Participant’s place of residence; provided, however, such events will not constitute “Good Reason” unless (1) the Participant gives the Company or a Subsidiary employing the Participant notice of the existence of an event described above within ninety (90) days following the initial occurrence thereof, (2) the Company or a Subsidiary employing the Participant does not remedy such event within thirty (30) days of receiving the notice described in the preceding clause (1) and (3) the Participant terminates employment within twelve (12) months of the end of the cure period described in the preceding clause (2).
- (c) Except with respect to the Participant’s termination of service for one of the reasons described in Section 2(b) above, any unvested portion of the Option Right as of the Participant’s termination of service shall expire and be forfeited immediately upon such termination of service.
- (d) Notwithstanding anything in this Award Agreement or the Plan to the contrary, employment with Capital Southwest or one of its subsidiaries after the Share Distribution will be deemed to be employment with the Company under the Plan, and a termination of service from Capital Southwest and all of its subsidiaries after the Share Distribution will be deemed to be a termination of service from the Company under the Plan, notwithstanding that Capital Southwest ceases to be an Affiliate of the Company.

### 3. **Exercise; Transferability**

- (a) Timing of Exercise. Any portion of the Option Right which vests and becomes exercisable in accordance with Section 2 above, shall remain exercisable as provided in this Section 3(a).
  - (i) In the case of a termination of service, any vested portion of the Option Right (including any portion of this Option Right that vests pursuant to Section 2(b)) shall be exercisable during the six (6) months following the later of the date of termination and the Trigger Event Date.

- (ii) If the Company or a Subsidiary terminates the Participant's employment for Cause, the unexercised, vested portion of the Option Right shall expire immediately upon the date of such termination. For purposes of this Award Agreement, "Cause" means with respect to the Participant (A) the commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment to the Participant to the detriment of the Company or a Subsidiary; (B) conviction of, or entering into a plea of *nolo contendere* to, a felony; (C) repeated failures to perform his responsibilities that are demonstrably willful and deliberate, provided that such failures have continued for more than ten (10) days following written notice from the Company or a Subsidiary of its intent to terminate his employment based on such failure; (D) intentional, repeated or continuing violation of any of the applicable policies or procedures of the Company or any Subsidiary that occurs or continues after notice to the Participant that he or she has violated such policy or procedure; or (E) any material breach of a written covenant or agreement with the Company or any Subsidiary, including the terms of this Plan or any material breach of fiduciary duty to the Company or any Subsidiary. For purposes of this definition, the Participant shall be considered to have been discharged for Cause if the Company or a Subsidiary determines within thirty (30) days after his or her resignation or discharge that discharge for Cause was warranted.
- (iii) In the event the Participant's employment with the Company and all Subsidiaries does not terminate prior to the Expiration Date, the vested portion of this Option Right shall remain exercisable until the Expiration Date.
- (b) Exercise Method. This Option Right shall be exercised by (i) delivery to the Company of a written notice of exercise stating the number of Common Shares being purchased (in whole Common Shares only) and such other information set forth on the form of Notice of Exercise attached to this Award Agreement as Exhibit A and (ii) a check or cash in the amount of the Option Price of the Shares covered by the notice (or such other consideration as has been approved by the Board of Directors of the Company consistent with the Plan), plus any applicable withholding taxes unless the Participant exercises the Option Right through a cashless exercise in accordance with the Plan and the Committee's rules and procedures governing cashless exercises. Any cashless exercise permitted hereunder will be subject to any applicable limitations or restrictions imposed under the Sarbanes-Oxley Act of 2002.
- (c) Transferability. Unless otherwise required by law, this Option Right shall not be assignable or transferable other than by will or by the laws of descent and distribution, and may be exercised during the lifetime of the Participant only by the Participant (or the Participant's guardian or legal representative).



#### **4. Taxation Upon Exercise of Option Right**

The Participant understands that, upon exercise of this Option Right, the Participant will recognize income, for Federal and state income tax purposes, in an amount equal to the amount by which the Market Value per Share, determined as of the date of exercise, exceeds the Option Price per share of Common Stock. The acceptance of the Common Shares by the Participant shall constitute an agreement by the Participant to report such income in accordance with then applicable law. Withholding for Federal or state income and employment tax purposes shall be made, if and as required by law, from the Participant's then current compensation, or, if such current compensation is insufficient to satisfy withholding tax liability, the Company may require the Participant to make a cash payment to cover the liability as a condition of the exercise of the Option Right; however, in the case of a cashless exercise, the Participant may use Common Shares that are the subject of such exercise to pay for any or all such tax liability, all in accordance with the Committee's rules and procedures governing such process. Any use of Common Shares to pay for any tax liability will be subject to any applicable limitations or restrictions imposed under the Sarbanes-Oxley Act of 2002.

#### **5. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided by the Participant for his or her employee records.

#### **6. Modification, Extension and Renewal of Option Right**

The Committee may modify, extend or renew this Option Right or accept its surrender (to the extent not yet exercised) and authorize the granting of a new option in substitution for it (to the extent not yet exercised), subject at all times to the Plan, the Code, and other applicable laws. Notwithstanding the foregoing provisions of this Section 6, no modification shall, without the consent of the Participant, alter to the Participant's detriment or impair any rights of Participant under this Award Agreement except to the extent permitted under the Plan.

#### **7. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan.

#### **8. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

---

**9. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

**10. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to this Option Right and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**11. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement on as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name:  
Address:

EXHIBIT A

CSW INDUSTRIALS, INC.

NON-QUALIFIED STOCK OPTION RIGHT EXERCISE FORM

Date: \_\_\_\_\_

Attention: \_\_\_\_\_

The undersigned hereby elects to exercise all or a portion of the Option Right issued to him/her by CSW Industrials, Inc. (the "Company") on September 30, 2015 and to purchase \_\_\_\_\_ shares of common stock of the Company (the "Common Shares") at an exercise price of \_\_\_\_\_ Dollars (\$\_\_\_\_) per Common Share or an aggregate purchase price of \_\_\_\_\_ Dollars (\$\_\_\_\_) (the "Option Price"). Pursuant to the terms of the Option Right, the undersigned has delivered the Option Price herewith in full in cash or \_\_\_\_\_.

Please issue a certificate or certificates representing said Common Shares in the name of the undersigned.

By: \_\_\_\_\_

Typed Name: \_\_\_\_\_

Address:

## CSW INDUSTRIALS, INC.

**Form of Restricted Share Award Agreement**

WHEREAS, Capital Southwest Corporation ("Capital Southwest") and [\_\_\_\_\_] (the "Participant") currently are parties to a Restricted Stock Agreement, dated August 28, 2014, which was amended and restated on September 9, 2015, whereby Capital Southwest granted restricted stock to the Participant (the "Capital Southwest Award") under the Capital Southwest Corporation 2010 Restricted Stock Award Plan (the "Capital Southwest Plan");

WHEREAS, effective as of 11:59 p.m. Central Time on September 30, 2015 (the "Effective Time"), Capital Southwest separated its industrial products, coatings, sealants, and adhesives and specialty chemicals businesses from its other businesses through a spin-off of those businesses to its stockholders, which resulted in the distribution of 100% of the outstanding stock in CSW Industrials, Inc. (the "Company") to the holders of common stock of Capital Southwest (the "Share Distribution");

WHEREAS, the Capital Southwest Award is being amended in connection with the Share Distribution and such adjustment includes granting restricted stock of the Company (the "Replacement Award");

WHEREAS, the Board of Directors of the Company has approved granting Replacement Awards in connection with the Share Distribution; and

WHEREAS, pursuant to Section 23 of the CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (the "Plan"), the Company is authorized to issue Replacement Awards to any holder of an equity compensation award granted under the Capital Southwest Plan that remains outstanding immediately prior to the Share Distribution.

NOW, THEREFORE, the Company hereby grants a Replacement Award to the Participant as follows:

Date of Grant: August 28, 2014  
Name of Participant: [\_\_\_\_\_]   
Number of Common Shares: [\_\_\_\_\_] , subject to reduction pursuant to Section 3 below  
Vesting Schedule: 1/3 on the Trigger Event Date; an additional 1/3 on the first anniversary of the Trigger Event Date; and the final 1/3 on the second anniversary of the Trigger Event Date

The Company hereby awards to the Participant the number of shares of the presently authorized but unissued Common Shares of the Company (the “Restricted Shares”) set forth above pursuant to the Plan, effective as of the Effective Time. This award of Restricted Shares is not intended to be a Qualified Performance-Based Award under the Plan. Unless otherwise provided herein, capitalized terms used in this Award Agreement that are defined in the Plan and not defined herein shall have the meanings set forth in the Plan.

The terms and conditions of the Restricted Shares granted hereby, to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

**1. No Right to Continued Employee Status**

Nothing contained in this Award Agreement shall confer upon the Participant the right to the continuation of his or her employee status, or to interfere with the right of the Company or any Subsidiary to terminate such relationship.

**2. Vesting of Restricted Shares**

- (a) Subject to the other provisions of this Award Agreement, the Restricted Shares shall vest in accordance with the Vesting Schedule set forth above.
- (b) Notwithstanding anything in this Award Agreement or the Plan to the contrary, all unvested Restricted Shares shall automatically vest in full, subject to reduction as provided in Section 3 below, upon the occurrence of any of the following events following the Trigger Event Date: (i) a Change in Control; (ii) the Participant’s termination of service from the Company and all Subsidiaries by the Participant for Good Reason; (iii) the Participant’s service is terminated by the Company and all Subsidiaries without Cause; (iv) the Participant’s termination of service from the Company and all Subsidiaries due to the Participant’s Disability; or (v) the Participant’s termination of service from the Company and all Subsidiaries due to the Participant’s death. Notwithstanding anything to the contrary, in the event a Change in Control or a termination of service from the Company and all Subsidiaries of the Participant for one of the reasons described in this Section 2(b) occurs on or before the Trigger Event Date, the Restricted Shares shall vest in full, subject to reduction as provided in Section 3 below, on the Trigger Event Date. For purposes hereof,

- (i) “Cause” mean with respect to the Participant (A) commission of any act or acts of personal dishonesty intended to result in substantial personal enrichment to the Participant to the detriment of the Company or any Subsidiary; (B) conviction of, or entering into a plea of *nolo contendere* to, a felony; (C) repeated failures to perform his or her responsibilities that are demonstrably willful and deliberate, provided that such failures have continued for more than ten (10) days following written notice from the Company or a Subsidiary of its intent to terminate his or her employment based on such failures; (D) intentional repeated or continuing violation of any of the applicable policies or procedures of the Company or a Subsidiary that occurs or continues after notice to the Participant that he or she has violated such policy or procedure; or (E) any material breach of a written covenant or agreement with the Company or a Subsidiary including the terms of the Plan or any material breach of fiduciary duty to the Company or a Subsidiary;
  - (ii) “Disability” shall have the meaning set forth in Section 22(e)(3) of the Code;
  - (iii) “Good Reason” means the occurrence of any of the following: (A) a material breach of the Participant’s employment agreement by the Company or a Subsidiary; (B) a reduction in the Participant’s title or a material reduction in the Participant’s duties, authorities, and/or responsibilities; (C) a material reduction in the Participant’s compensation or benefits; or (D) a requirement by the Company or a Subsidiary without the Participant’s consent, that the Participant relocate to a location greater than thirty-five (35) miles from the Participant’s place of residence; provided, however, such events will not constitute “Good Reason” unless (1) the Participant gives the Company or a Subsidiary employing the Participant notice of the existence of an event described above within ninety (90) days following the initial occurrence thereof, (2) the Company or a Subsidiary employing the Participant does not remedy such event within thirty (30) days of receiving the notice described in the preceding clause (1) and (3) the Participant terminates employment within twelve (12) months of the end of the cure period described in the preceding clause (2);
  - (iv) “Trigger Event” means the Share Distribution; and
  - (v) “Trigger Event Date” means the 90th day following the consummation of the Trigger Event.
- (c) Except with respect to the Participant’s termination of service for one of the reasons described in Section 2(b), all unvested Restricted Shares as of the Participant’s termination of service shall expire and be forfeited immediately upon such termination of service.

- (d) Notwithstanding anything in this Agreement or the Plan to the contrary, employment with Capital Southwest or one of its subsidiaries after the Share Distribution will be deemed to be employment with the Company under the Plan, and a termination of service from Capital Southwest and all of its subsidiaries after the Share Distribution will be deemed to be a termination of service from the Company under the Plan, notwithstanding that the Company ceases to be an affiliate of Capital Southwest.

### 3. Reduction of Restricted Shares

The number of Restricted Shares subject to this Award Agreement, together with the number of shares of restricted stock of Capital Southwest subject to the restricted stock award granted to the Participant by Capital Southwest on the Date of Grant (the "Capital Southwest Restricted Stock Award") shall, if necessary, be reduced, in the aggregate, by such number of shares, if any, as is necessary to cause the Equity Award Value to not exceed the Total Payout Amount. In the event such reduction is necessary, the number of shares of restricted stock of Capital Southwest subject to the Capital Southwest Restricted Stock Award shall be reduced (to zero, if necessary) prior to any such reduction of the number of Restricted Shares subject to this Award Agreement. The number of Restricted Shares subject to this Award Adjustment, as so adjusted, shall vest in accordance with the Vesting Schedule and Section 2 above. For purposes hereof,

- (a) "Aggregate Base Value" means \$557,353,318.
- (b) "Aggregate Trigger Event Value" means the sum of (i) the product of (A) the VWAP of one share of common stock of Capital Southwest over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of Capital Southwest outstanding as of the Trigger Event Date, plus, except in the case of the Share Distribution, the aggregate value of all dividends and distributions paid on the common stock of Capital Southwest from the Date of Grant through the Trigger Event Date and (ii) the product of (A) the VWAP of one Common Share over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date and (B) the Fully Diluted Shares of the Company outstanding as of the Trigger Event Date.
- (c) "Equity Award Value" means the sum of (i) the Restricted Stock Value and (ii) the Option Award Value.
- (d) "Fully Diluted Shares" means, at any time of determination, the number of shares of common stock of the applicable entity outstanding at such time, plus the number of shares of issuable upon exercise or conversion or otherwise pursuant to any in-the-money common stock equivalents of such entity outstanding at such time.
- (e) "Option Award Value" means the positive difference, if any, between (i) the sum of (A) the product of (I) the number of shares of common stock of Capital Southwest underlying the non-qualified option awarded to the Participant by Capital Southwest on the Date of Grant, as adjusted in connection with the Share



Distribution, (the “Capital Southwest Option”) and (II) the VWAP of one share of common stock of Capital Southwest over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date and (B) the product of (I) the number of Common Shares that would be distributed upon exercise of the non-qualified stock option right granted to the Participant by the Company in connection with the adjustment of the Capital Southwest Option and (II) the VWAP of one Common Share over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date minus (ii) the aggregate exercise price payable under such non-qualified option grants.

- (f) “Restricted Stock Value” means (i) the product of (A) the aggregate number of shares of restricted stock granted under the Capital Southwest Restricted Stock Award and (B) the VWAP of one share of common stock of Capital Southwest over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date plus, except in the case of the Share Distribution, the aggregate value of all dividends and distributions, if any, paid on the restricted stock awarded under the Capital Southwest Restricted Stock Award from the Date of Grant through the Trigger Event Date and (ii) the product of (A) the number of Restricted Shares granted to the Participant pursuant to this Award Agreement and (B) the VWAP of one Common Share over the twenty (20) consecutive trading days immediately preceding the Trigger Event Date.
- (g) “Total Payout Amount” means (i) two percent (2%) of the positive difference, if any, of the Aggregate Trigger Event Value less the Aggregate Base Value (such difference, the “Equity Value Accretion”), but only taking into account for purposes of this clause (i) Equity Value Accretion up to and including \$375,000,000, plus (ii) [—] percent (—%) of the amount, if any, by which the Equity Value Accretion exceeds \$375,000,000.
- (h) “VWAP” means, for the relevant security, the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on the Bloomberg AQR page for the relevant security (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session over the relevant determination period (or if such volume-weighted average price is unavailable, the market value of one share on each trading day during the relevant determination period, determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by the Company). The VWAP will be determined without regard to after hours trading or any other trading outside of the regular trading session trading hours.

#### **4. Retention of Certificates**

The certificate(s) representing the Restricted Shares granted hereby will be stamped or otherwise imprinted with the legend required by the Plan with respect to any applicable restrictions on the sale or transfer of such shares, and the stock transfer records of the Company will reflect stop transfer instructions with respect to such shares. At the election of the Company,

the Company may retain the certificate(s) representing the Restricted Shares granted to the Participant pursuant to this Award Agreement until such time as the vesting restrictions have lapsed and the restrictions on the transfer of such Restricted Shares have terminated or are removed by the Board. Within a reasonable time thereafter, the Company will deliver to the Participant a new certificate representing such shares, free of the legend referred to herein. The issuance of such certificate shall not affect any restrictions upon the transferability of such shares pursuant to applicable law or otherwise.

#### **5. Restrictions on Transfer**

Restricted Shares granted hereunder shall not be sold, assigned, transferred, pledged or otherwise encumbered until such shares are fully vested.

#### **6. Dividends and Other Distributions**

Notwithstanding anything in the Plan to the contrary, no cash dividends shall be paid with respect to unvested Restricted Shares. The Participant, however, shall have the right to receive any stock and other noncash dividends and noncash distributions made with respect to the Restricted Shares, subject to the vesting of such Restricted Shares. With respect to any unvested Restricted Shares, such noncash dividends or noncash distributions shall likewise be restricted and shall vest on the same schedule as the Restricted Shares as to which the dividends or distributions relate. Any such dividends or distributions shall be retained by the Company and paid to the Participant promptly following vesting of the Restricted Shares to which such dividends or distributions pertain. Upon forfeiture of any of the Restricted Shares, the noncash dividends and noncash distributions related thereto shall also be forfeited.

#### **7. Voting of Restricted Shares**

The Participant shall be entitled to vote the Restricted Shares subject to the rules and procedures adopted by the Committee for this purpose.

#### **8. Withholding**

To the extent that the Company is required to withhold Federal, state or other taxes in connection with the lapse of the restrictions hereunder on the Common Shares, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the obligation of the Company to make any such delivery that the Participant make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld.

#### **9. Notices**

Any notice required to be given pursuant to this Award Agreement or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to the Participant at the address last provided for his or her employee records.

## **10. Award Agreement Subject to Plan**

This Award Agreement is made pursuant to the Plan and shall be interpreted to comply therewith. Any provision of this Award Agreement inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan. For the avoidance of doubt, in the event Sections 2, 3 or 6 of this Award Agreement are inconsistent with the Plan, the terms of Sections 2, 3, and 6 of this Award Agreement shall govern.

## **11. Entire Agreement**

This Award Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Award Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Award Agreement, provided, however, in any event, this Award Agreement shall be subject to and governed by the Plan.

## **12. Severability**

In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

## **13. Electronic Delivery**

The Company may, in its sole discretion, deliver any documents related to the Restricted Shares and the Participant's participation in the Plan, or future awards that may be granted under the Plan, by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

## **14. Counterparts**

This Award Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Award Agreement as of the date first above written.

COMPANY:

CSW INDUSTRIALS, INC.

\_\_\_\_\_  
By: Joseph B. Armes  
Chief Executive Officer

PARTICIPANT:

\_\_\_\_\_  
Name:

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

I, Joseph B. Armes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015 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)) 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) Intentionally omitted;
  - (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: February 16, 2016

/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, Kelly Tacke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015 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)) 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) Intentionally omitted;
  - (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: February 16, 2016

/s/ Kelly Tacke

---

Kelly Tacke  
Chief Financial Officer  
(Principal Financial Officer)

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

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

(1) the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: February 16, 2016

/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, Kelly Tacke, Chief Financial Officer of CSW Industrials, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: February 16, 2016

/s/ Kelly Tacke

---

Kelly Tacke  
Chief Financial Officer  
(Principal Financial Officer)