

CSW INDUSTRIALS, INC.
Form 10-K
May 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018

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

For the transition period from _____ to _____
Commission file number 001-37454
CSW INDUSTRIALS, INC.
(Exact name of registrant as specified in its charter)

Delaware 47-2266942
(state or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5420 Lyndon B. Johnson Freeway, Suite 500, Dallas, Texas 75240
(Address of principal executive offices) (zip code)
(214) 884-3777

Registrant's telephone number, including area code:

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

| Title of each class | Name of each exchange on which registered |
|------------------------------------------|-------------------------------------------|
| Common Stock, par value \$0.01 per share | Nasdaq Stock Market LLC |

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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(Do not check if smaller
reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

The aggregate market value of the registrant's common stock held by non-affiliates, based on the last sale price for the common stock as reported by the Nasdaq Global Select Market on September 29, 2017 the last business day of our most recently completed second fiscal quarter was approximately \$479.8 million.

As of May 24, 2018, the latest practicable date, 15,841,605 shares of the registrant's common stock, par value \$0.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive proxy statement for the registrant's Annual Meeting of Stockholders is incorporated by reference into Part III hereof.

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PART I

Unless otherwise specified, or the context otherwise requires, the references in this Annual Report on Form 10-K for the fiscal year ended March 31, 2018 ("Annual Report") to "our company," "the Company," "we," "us," "our" or "CSWI" refer to CSW Industrials, Inc. together with our wholly-owned subsidiaries.

ITEM 1: BUSINESS

General

CSWI is a diversified industrial growth company with well-established, scalable platforms and domain expertise across two business segments: Industrial Products and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilation and air conditioning ("HVAC") and refrigeration applications, 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 manufacturing operations are concentrated in the United States ("U.S.") and Canada, but we also have distribution operations in Australia, Canada and the United Kingdom ("U.K."), and our products are sold directly or through designated channels in over 100 countries around the world, including: Australia, Brazil, Canada, China, Colombia, the Netherlands, Russia, South Africa, Sweden, the U.K. and the U.S.

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

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

CSWI is a Delaware corporation and was incorporated in 2014 in anticipation of CSWI's separation from Capital Southwest Corporation ("Capital Southwest"), which occurred on September 30, 2015. Since the separation, CSWI has been an independent, publicly-traded company, listed on the Nasdaq Global Select Market. The separation was executed on September 30, 2015 through a pro-rata share distribution of all the then outstanding shares of common stock of CSWI to the holders of common stock of Capital Southwest (the "Share Distribution").

Our Competitive Strengths

We believe we have the following competitive strengths:

Broad Portfolio of Industry Leading Products and Solutions

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

Sustainable Organic Revenue Growth and Operating Performance

We focus on end markets with strong growth trends. We also have a loyal customer base that recognizes the performance and quality of our products and solutions, including continuously evaluating the potential uses of existing products to broaden our market penetration. Further, our customer base is diverse: for the fiscal year ended March 31, 2018, no single customer represented 10% or more of our net revenues.

These factors have enabled us to generate strong margin performance. We are focused on improving our profitability through targeted investments to further optimize our manufacturing processes. For example, in both of our reportable segments, we have taken actions to consolidate our manufacturing footprint in order to optimize capacity, improve efficiency and leverage technologies while enhancing product quality. Further, we continually look to refine our manufacturing processes in all of our manufacturing facilities to lower manufacturing costs, increase production capacity and improve product quality.

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Stable Platform for Acquisitions with Proven Track Record

We believe that our experience in identifying, completing and integrating acquisitions is one of our core competitive strengths, as evidenced by over 30 acquisitions that we have successfully completed since 1991. Since April 1, 2012, our acquisitions have either (1) added new products designed to service our existing end markets, or (2) provided an entry into new, complementary end markets where we can drive revenue growth and improved profitability.

Historically, our acquisitions have been relatively small, lower-risk acquisitions of a product that we have identified as having the potential to benefit from our extensive distribution network and manufacturing efficiencies.

We did not complete any acquisitions during the fiscal year ended March 31, 2018, and completed one acquisition during the fiscal year ended March 31, 2017. Effective February 28, 2017, we acquired Greco Aluminum Railings, a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures. Effective October 1, 2015, we acquired substantially all of the assets of Deacon Industries, Inc., a leading manufacturer of high temperature sealants and injectable packings. Effective December 16, 2015, we acquired substantially all of the assets of AC Leak Freeze, a leading manufacturer of original equipment manufacturer-safe air conditioning and refrigerant leak repair solutions.

Culture of Product Enhancement and Customer Centric Solutions

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

Diverse Sales and Distribution Channels

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

Our Growth Strategy

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

Leveraging Existing Customer Relationships and Products and Solutions

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

Product Innovation to Accelerate Organic Growth

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The collaborative relationships and open feedback channels we have with our distributors and end users allow us to add value not only through enhancing and adapting existing products and solutions, but also through efficiently developing new products and solutions to meet existing and future customer needs. Our research and development, sales and marketing personnel work together to identify product opportunities and methodically pursue development of innovative new products. Through developing new products and solutions to both address new markets and complement our product portfolio in markets we currently serve, we create increased opportunities to drive organic growth.

Focused Acquisitions that Leverage our Distribution Channels

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

Benefits Resulting from the Share Distribution

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

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

Raw Materials and Suppliers

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

Intellectual Property

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

Export Regulations

We are subject to export control regulations in countries from which we export products and services. These controls may apply by virtue of the country in which the products are located or by virtue of the origin of the content contained in the products. If the controls of a particular country apply, the level of control generally depends on the nature of the goods and services in question. Where controls apply, the export of our products generally requires an export license or authorization (either on a per-product or per transaction basis) or that the transaction qualify for a license exception or the equivalent, and may also be subject to corresponding reporting requirements. See Note 18 to our consolidated financial statements included in Item 8 of this Annual Report for financial and other information regarding our operations on a geographical basis.

Environmental Regulations

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

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

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well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by us and could have a material impact on our business, financial condition and results of operations.

Employees

As of March 31, 2018, we employed 730 individuals within our continuing operations. Of these employees, 18 are represented by unions. We believe relations with our employees throughout our operations are generally satisfactory, including those employees represented by unions. No unionized facility accounted for more than 10% of our consolidated revenues for the fiscal year ended March 31, 2018.

Available Information

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

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

Business Segments

We operate in two business segments: Industrial Products and Specialty Chemicals. The table below provides an overview of these business segments. For financial information regarding our segments, see Note 18 to our consolidated financial statements included in Item 8 of this Annual Report.

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

- Oil and gas
- Commercial construction
- General industrial
- Refrigeration

Industrial Products

Our Industrial Products segment consists of: specialty mechanical products; fire and smoke protection products; architecturally-specified building products; and storage, filtration and application equipment for use with our specialty chemicals

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and other products for general industrial applications. These industrial products are primarily manufactured internally, although we strategically engage third-party manufacturers for certain products. We ensure the quality of internally- and externally-manufactured products through our stringent quality control review procedures. Our building products are eco-friendly, enabling them to be easily incorporated into the “Green Building” market. Our key product types and brand names are included below:

| Product Types | Brand Names |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Specialty Mechanical Products | |
| <ul style="list-style-type: none"> • condensate switches, traps and pans • line set covers • condensate removal pumps and equipment mounting brackets • air diffusers for use by professional air conditioning contractors • tamper resistant locking refrigerant caps • ductless mini-split systems installation support tools • drain waste and vent systems mechanical products • decorative roof drain downspout nozzles • wire pulling head tools • equipment pads | <ul style="list-style-type: none"> • Airtec® • ArmorPad™ • Clean Check® • EZ Trap® • Fortress® • Goliath® Pans • G-O-N® • Hubsett™ • Magic Vent® • Mighty Bracket™ • Novent® • Safe-T-Switch® • Slim Duct™ • SureSeal® • Titan™ Pans • Wire Grabber™ |
| Fire and Smoke Protection Products | |
| <ul style="list-style-type: none"> • fire-rated and smoke-rated opening protective systems | <ul style="list-style-type: none"> • Smoke Guard® |
| Architecturally-Specified Building Products | |
| <ul style="list-style-type: none"> • expansion joint covers • fire barriers • specialty silicone seals • stair nosings • partition closure systems • entrance mats and grids • photoluminescent egress markings and signage • trench and access covers • architectural grating • engineered railing | <ul style="list-style-type: none"> • Balco® • DuraFlex™ • Greco™ • IllumiTread™ • MetaBlock™ • MetaFlex™ • MetaGrate™ • MetaMat™ • Michael Rizza™ • UltraGrid™ |
| Storage, Filtration and Application Equipment | |
| <ul style="list-style-type: none"> • lubrication application and management systems • storage and filtration devices | <ul style="list-style-type: none"> • Air Sentry® • Guardian® • Oil Safe® • Whitmore Rail™ |

New Product Development – Customer experience is a core competency in our Industrial Products segment. We gather "voice of the customer" market research through organized focus groups and online surveys, as well as through less formal channels. Ideas for new products or enhancements to existing products are also generated by our relationships

with end users, independent sales representatives, distributors and our internal sales and marketing team. We also actively monitor the competitive landscape using a variety of methods. We develop new products and modify existing products in our research and development (“R&D”) labs in Houston, Texas; Rockwall, Texas; Boise, Idaho; Wichita, Kansas; and Windsor, Canada.

Competition – Our competition in the Industrial Products segment is varied. Competitors range from small entrepreneurial companies with a single product, to large multinational original equipment manufacturers (“OEMs”). In the specialty mechanical products category, we compete with Diversitech, Supco, Little Giant, Mitsubishi, Cherne, Mainline and JR Smith. Most of our

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products are sold through distribution channels, and we compete based on breadth of product line, customer service and pricing. In the fire and smoke protection category we compete with Won Door, Stoebich, McKeon and others, typically on the basis of product innovation, knowledge of building codes and customer service. In the architecturally-specified building products category, we compete primarily with Emseal, Inpro, and MM Systems on the basis of product innovation, price and driving architectural specifications. In the lubricant storage, filtration and transfer space, we compete with Des-Case, Hy-Pro, IFH and others on the basis of superior performance, brand strength and breadth of product line.

Customers – Our primary customers for specialty mechanical products are HVAC, plumbing and electrical wholesalers and distributors. Some of these are local single location distributors, but many are regional or national in scope with hundreds of locations. The majority of these products are sold domestically; however, a small portion is sold internationally through similar channels, and a small number of OEMs purchase these products directly. Fire and smoke protection products are sold through local building products distributors who also perform installations and service. Architecturally-specified building products are sold primarily through a network of distributors. Storage, filtration and application products are marketed and sold worldwide through a service-intensive distribution network. **Seasonality** – A significant portion of our products are sold into the HVAC market, which is seasonal by nature. While products are sold throughout the year, sales tend to peak during summer months.

Specialty Chemicals

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

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Product Types

- railroad track lubricants, conditioners and positive friction consumables
- oil field anti-seize products for drilling and conveyance piping
- open gear specialty lubricants for heavy equipment
- specialty lubricants for various industrial applications
- water well treatment products and services
- chemical sealants to stop air-conditioning refrigerant leaks
- engineered specialty thread sealants designed to seal and secure metal
- specialty sealants for high temperature applications
- solvent cements and fire stop caulks

Brand Names

- AC Leak Freeze®
- Bio Fireshield™
- BioRail®
- Deacon®
- Decathlon™
- Envirolube®
- Gearmate®
- KATS® Coatings
- KOPR-KOTE®
- Medallion™
- Metacaulk®
- Paragon™
- Rail Armor®
- RectorSeal No. 5®
- Run-N-Seal®
- Sterilene™
- Surtac®
- T Plus 2®
- TOR Armor®
- Tru-Blu™
- Unacid™
- Well-Guard®
- Whitcam®

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

Competition – In general, our products are specialty products, rather than commodity, competitors tend to be varied and include global, regional and local companies that may be large or small. The product sales cycle is often long when compared to many commodity consumables, resulting in verifiable and repeatable product performance being the key driver of choice, rather than price. As these products protect and enhance the operation of large capital equipment, qualification is based on the proof of value in application, resulting in a high changeover risk barrier. Typical competitors include Shell, Castrol, Fuchs and Exxon-Mobil. Competitors of our sealants and adhesives products include Dow Corning Corporation, Henkel, 3M Company, Specified Technologies Inc. and Hilti. We compete primarily on the basis of product differentiation, superior performance, quality and customer-centric service.

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

contractors and repair service companies.

Discontinued Operations and Segment Realignment

During the third quarter of fiscal year ended March 31, 2018, we committed to a plan to divest our Strathmore Products business (the "Coatings business"). This determination resulted in the reclassification of the assets comprising that business to

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assets held-for-sale, and a corresponding adjustment to our consolidated statements of operations to reflect discontinued operations for all periods presented.

Additionally, as a result of our determination to divest the Coatings business, we have realigned our reportable segments to better align our resources to support our ongoing business strategy. We retained our Industrial Products Segment and combined the remaining non-coatings business lines of our historical Coatings, Sealants & Adhesives Segment into the Specialty Chemicals Segment. The reportable segment realignment is consistent with the manner in which we evaluate performance and make resource allocation decisions, subsequent to the decision to divest the Coatings business. Historical segment information has been retrospectively adjusted to reflect the effect of this change. Our segment information is more fully disclosed in Note 18 to our consolidated financial statements included in Item 8 of this Annual Report. Historical information also reflects discontinued operations presentation for the portion of our business meeting the held-for-sale criteria as described in Note 3 to our consolidated financial statements included in Item 8 of this Annual Report.

ITEM 1A: RISK FACTORS

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

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

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

In addition, competition among producers of certain specialty chemicals products is intense. Increased competition from existing or newly-developed chemical products may reduce demand for our products in the future, and our customers may decide on alternate sources to meet their requirements. If we are unable to successfully compete with other producers or if other products can be successfully substituted for our products, our sales may decline. Challenging and volatile conditions in the overall global economy, particularly in the U.S., including the capital, credit and commodities markets, could materially adversely affect our financial position, results of operations and cash flows.

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

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

challenging market conditions could result in our key customers experiencing financial difficulties and/or electing to limit spending, which in turn could result in decreased sales and earnings for us.

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

A failure to develop commercially successful products or product enhancements or to identify product extensions could materially adversely affect our financial results. If our attempts to develop or enhance products is unsuccessful, we may be unable

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to recover our development costs, which could have an adverse effect on our business and results of operations. In addition, our inability to enhance or develop products that are able to meet the evolving needs of our customers, including a failure to do so that results in our products lagging those of new or existing competitors, could reduce demand for our products and may have a material adverse effect on our business and results of operations. The cyclical nature of certain end markets that our business serves can cause significant fluctuations in our results of operations and cash flows.

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

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

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

any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, not achieve cost savings or other synergies in accordance with our anticipated timetable or require us to take an impairment related to the acquired business;

we may decide to divest businesses, technologies, services or products for financial, strategic or other reasons, which may require significant financial and managerial resources and may result in unfavorable accounting treatment;

we may incur or assume significant debt in connection with our acquisitions, which would increase our leverage and interest expense, thereby reducing funds available to us for purposes such as working capital, capital expenditures, research and development and other general corporate purposes;

pre-closing and post-closing earnings and charges could adversely impact operating results in any given period, and the impact may be substantially different from period to period;

the process of integrating acquired operations may create operating difficulties and may require significant financial and managerial resources that would otherwise be available for existing operations;

we could experience difficulty in integrating financial and other controls and systems;

we may lose key employees or customers of the acquired company;

we may assume liabilities that are unknown or for which our indemnification rights are insufficient, or known or contingent liabilities may be greater than anticipated; and

conforming the acquired company's standards, process, procedures and controls, including accounting systems and controls, with our operations could cause internal control deficiencies related to our internal control over financial reporting or exposure to regulatory sanctions resulting from the acquired company's activities.

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

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

Loss of key suppliers, the inability to secure raw materials on a timely basis, or our inability to pass commodity price increases on to customers could have an adverse effect on our business.

Materials used in our manufacturing operations are generally available on the open market from multiple sources. However, some of the raw materials we use are only available from a limited number of sources; accordingly, any disruptions to a critical suppliers' operations could have a material adverse effect on our business and results of operations. Prices paid for raw materials could be affected by the energy industry and other commodity prices; tariffs and duties on imported materials; foreign currency exchange rates; and phases of the general business cycle and global

demand. We may be unable to pass along price increases to our customers, which could have a material adverse effect on our business and results of operations.

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

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

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

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

We depend on the services of domestic and international independent distributors to sell our products and, in many cases, provide service and aftermarket support to end users of our products. Rather than serving as passive conduits for delivery of products, our distributors play a significant role in determining which of our products are available for purchase by contractors to service end users. While the use of distributors expands the reach and customer base for our products, the maintenance and administration of distributor relationships is costly and time consuming. The loss of a substantial number of our distributors could have a material adverse effect on our business, financial condition, results of operations or cash flows. In certain international jurisdictions, distributors are conferred certain legal rights that could limit our ability to modify or terminate distribution relationships.

Many of the distributors with whom we transact business also offer competitors' products and services to our customers. An increase in the distributors' sales of our competitors' products to our customers, or a decrease in the number of our products the distributor makes available for purchase, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

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

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

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

testing capacity, we may not be able to obtain alternative manufacturing in a timely manner or on commercially acceptable terms.

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

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As part of our business strategy, we acquire businesses in the ordinary course, some of which may be material; please see “Item 1. Business” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report for additional information. Our ability to grow revenues, earnings and cash flow at or above our historic rates depends in part upon our ability to identify, successfully acquire and integrate businesses at accretive valuations and realize anticipated synergies. Our inability to do so could adversely impact our growth rate and our stock price. Our ability to implement our inorganic growth strategy will be limited by our ability to identify appropriate acquisition candidates, which are difficult to identify for a number of reasons, including high valuations and competition among prospective buyers. Covenants in our credit agreement and our financial resources, including available cash and borrowing capacity, will also limit our ability to consummate acquisitions, which may require additional debt financing, resulting in higher leverage and an increase in interest expense. Changes in accounting or regulatory requirements could also adversely impact our ability to consummate acquisitions.

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

As a manufacturing company, we rely on a positive relationship with our employees to produce our products and maintain our production processes and productivity. As of March 31, 2018, we had 730 full-time employees in our continuing operations, of which 18 were subject to collective bargaining agreements. If our workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted, or we could experience higher labor costs. In addition, if significant portions of our employees were to become unionized, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

In addition, we benefit from certain regulations, including building code regulations, which require the use of products that we and other manufacturers sell. For example, certain environmental regulations may encourage the use of more environmentally

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friendly products, such as some of the lubricants and greases that we manufacture. If these regulations were to change, demand for our products could be reduced and our results of operations could be adversely affected.

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

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

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

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

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

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

Failure to maintain effective disclosure controls and procedures and internal controls over financial reporting could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports, effectively prevent fraud and operate successfully as a public company. If we cannot provide reliable financial reports or effectively prevent fraud, our reputation and operating results could be harmed. If we are unable to maintain effective disclosure controls and procedures and internal controls over financial reporting, we may not be able to provide reliable financial reports, which in turn could affect our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in reported financial information, which could

negatively affect our stock price, limit our ability to access capital markets in the future, and require additional costs to improve internal control systems and procedures.

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

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

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

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

We have a complex tax structure, and changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

We have a complex tax structure and our future effective tax rates could be adversely affected by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are also subject to periodic examination of our income tax returns by the Internal Revenue Service (the "IRS") and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have a material adverse effect on our business, financial condition and results of operations.

We are also exposed to changes in tax law which can impact our current and future year's tax provision. We continue to assess the impact of the recently enacted H.R.1, commonly referred to as the Tax Cuts and Jobs Act, and the Finance (No. 2) Act 2017 in the U.K. (together, the "New Tax Laws"), as well as any future regulations implementing the New Tax Laws and any interpretations of the New Tax Laws. The effect of those regulations and interpretations, as well as any additional tax reform legislation in the U.S., U.K. or elsewhere, could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. Moreover, our competitors may already hold or in the future may hold intellectual property rights in the U.S. or abroad that, if enforced or issued, could possibly prevail over our rights or otherwise limit our ability to manufacture or sell one or more of our products in the U.S. or internationally. Despite our efforts, we may be sued for infringing on the intellectual property rights of others. This litigation is costly and, even if we prevail, the costs of such litigation

could adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

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

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

for, or reacting to, changes in our business and industry.

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

We are also required to comply with leverage and interest coverage financial covenants and deliver to our lenders audited annual and unaudited quarterly financial statements. Our ability to comply with these covenants may be affected by events beyond

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our control. Failure to comply with these covenants could result in an event of default which, if not cured or waived, may have a material adverse effect on our business, financial condition, results of operations and cash flows. If the Share Distribution were to fail to qualify as a tax-free transaction for U.S. federal income tax purposes, then we and our stockholders could incur significant U.S. federal income tax liabilities.

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

As part of the Share Distribution, we agreed to not take certain actions that would be inconsistent with the qualification of the Share Distribution as tax free under the Code, and we agreed to indemnify Capital Southwest for any tax liabilities resulting from such actions we take. If the Share Distribution ultimately is determined to be taxable, it could expose Capital Southwest and its shareholders to significant U.S. federal income tax liabilities for which we may be liable, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

Forward-Looking Statements

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

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

• our business strategy;

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

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our
 current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance
 or achievements. The foregoing factors should not be construed as exhaustive. If one or more of these or other risks or
 uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially
 from what we anticipate. Any forward-looking statements you read in this Annual Report reflect our views as of the
 date of this Annual Report with respect to future events and are subject to these and other risks, uncertainties and
 assumptions relating to our operations, results of operations, growth strategy and liquidity. You should not place
 undue reliance on these forward-looking statements and you should carefully consider all of the factors identified in
 this Annual Report that could cause actual results to differ. We assume no obligation to update these forward-looking
 statements, except as required by law.

ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Properties

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

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

| Location | Use | Segment | Square Footage | Owned/Leased |
|------------------------------|---------------------------------------------|---------------------|----------------|--------------|
| Boise, Idaho | Manufacturing, Office and R&D | Industrial Products | 40,800 | Leased |
| Fall River, Massachusetts | Manufacturing and Office | Both | 140,200 | Leased |
| Houston, Texas | Manufacturing, Office, R&D and Warehouse | Both | 253,900 | Owned |
| Rockwall, Texas | Manufacturing, Office, R&D and Warehouse | Both | 227,600 | Owned |
| Wichita, Kansas | Manufacturing and Office | Industrial Products | 42,800 | Owned |
| Windsor, Ontario, Canada | Manufacturing, Office and R&D | Industrial Products | 42,000 | Leased |

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

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ITEM 3: LEGAL PROCEEDINGS

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

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information

Our common shares are listed on the Nasdaq Global Select Market. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock, as reported by Nasdaq:

| | High | Low |
|-----------------------------------------------------|---------|---------|
| Fiscal year ended March 31, 2017: | | |
| First quarter (April 1, 2016 – June 30, 2016) | \$35.96 | \$30.03 |
| Second quarter (July 1, 2016 – September 30, 2016) | 34.86 | 30.76 |
| Third quarter (October 1, 2016 – December 31, 2016) | 39.25 | 29.25 |
| Fourth quarter (January 1, 2017 – March 31, 2017) | 41.85 | 34.59 |

Fiscal year ended March 31, 2018:

| | | |
|-----------------------------------------------------|---------|---------|
| First quarter (April 1, 2017 – June 30, 2017) | \$40.80 | \$34.05 |
| Second quarter (July 1, 2017 – September 30, 2017) | 45.20 | 37.80 |
| Third quarter (October 1, 2017 – December 31, 2017) | 50.00 | 44.30 |
| Fourth quarter (January 1, 2018 – March 31, 2018) | 49.31 | 41.70 |

Holders

As of May 24, 2018, there were approximately 500 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Dividend Policy

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

Issuer Purchases of Equity Securities

Note 11 to our consolidated financial statements included in Item 8 of this Annual Report includes a discussion of our share repurchase program. The following table represents the number of shares repurchased through March 31, 2018.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (a) (in millions) |
|-----------------|----------------------------------|------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| January 1 - 31 | 206 | (b)\$45.90 | — | \$ 34.9 |
| February 1 - 28 | 17,938 | (c)44.29 | 15,811 | 34.2 |
| March 1 - 31 | 9,765 | (d)45.04 | 9,512 | 33.8 |
| | 27,909 | | 25,323 | |

(a) On November 11, 2016, we announced that our Board of Directors authorized us to repurchase shares of our common stock up to an aggregate market value of \$35.0 million during a two-year period. The program may be limited or terminated at any time. As of March 31, 2018, 26,544 shares have been repurchased for an aggregate of

\$1.2 million.

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

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- (c) Includes 2,127 shares tendered by employees to satisfy minimum tax withholding amounts for restricted share vesting at an average price per share of \$45.85.
- (d) Includes 253 shares tendered by employees to satisfy minimum tax withholding amounts for restricted share vesting at an average price per share of \$45.77.

Stock Performance Chart

The following graph compares the cumulative total shareholder return on our common stock from October 1, 2015 (the date on which our common shares began "regular way" trading on the Nasdaq Global Select Market) through March 31, 2018 compared with the Russell 2000 Index and a composite custom peer group, selected on an industry basis. The graph assumes that \$100 was invested at the market close on October 1, 2015 and that all dividends were reinvested. The stock price performance of the following graph is not necessarily indicative of future stock price performance. The custom peer group consists of the following:

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

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

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ITEM 6: SELECTED FINANCIAL DATA

| (Amounts in thousands, except per share data) | Fiscal Years Ended March 31, | | | | |
|------------------------------------------------------|------------------------------|-----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| RESULTS OF OPERATIONS (a) | (b) | (c) | (d) | (e) | (e) |
| Revenues, net | \$326,222 | \$287,460 | \$266,917 | \$261,834 | \$231,713 |
| Gross profit | 147,916 | 128,931 | 134,667 | 126,425 | 112,086 |
| Operating expenses | (97,202) | (95,805) | (88,472) | (82,391) | (74,173) |
| Operating income | 50,714 | 33,126 | 46,195 | 44,034 | 37,913 |
| Interest expense, net | (2,317) | (2,695) | (3,036) | (611) | (131) |
| Provision for income taxes | (15,565) | (14,360) | (19,166) | (15,223) | (12,794) |
| Income from continuing operations | 32,682 | 17,800 | 23,807 | 29,705 | 24,732 |
| Diluted earnings per share for continuing operations | 2.09 | 1.12 | 1.52 | 1.90 | 1.58 |

FINANCIAL CONDITION

| | | | | | |
|----------------------------------------------|----------|-----------|-----------|----------|----------|
| Working capital | \$82,713 | \$108,547 | \$123,958 | \$93,774 | \$90,884 |
| Total assets | 340,816 | 398,427 | 392,671 | 286,521 | 277,820 |
| Total debt | 24,020 | 73,207 | 89,682 | 26,704 | 45,097 |
| Retirement obligations and other liabilities | 6,738 | 14,844 | 13,566 | 30,255 | 12,233 |
| Total equity | 265,765 | 272,438 | 258,010 | 204,601 | 196,186 |

Results of operations have been adjusted retrospectively for all periods presented to reflect discontinued operations.

(a) For additional information see Note 3 to our consolidated financial statements included in Item 8 of this Annual Report.

(b) Results of operations in the fiscal year ended March 31, 2018 included costs of \$1.4 million resulting from restructuring and realignment initiatives, resulting in a reduction of after tax net earnings of \$0.9 million.

(c) Results of operations in the fiscal year ended March 31, 2017 included costs of \$6.6 million resulting from restructuring and realignment initiatives, resulting in a reduction of after tax net earnings of \$4.3 million.

(d) Results of operations in the fiscal year ended March 31, 2016 included a curtailment gain of \$8.0 million resulting from freezing our qualified pension plan, resulting in an increase of after tax net earnings of \$5.2 million.

(e) We began operations on September 30, 2015 as a result of the Share Distribution discussed in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. The financial position, results of operations and cash flows for periods prior to September 30, 2015 represent the combined financial information of our wholly-owned subsidiaries contributed to us as a result of the Share Distribution. The financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had our wholly-owned subsidiaries been operating as separate, publicly-traded (“standalone”) companies during those periods and may not reflect the consolidated results of operations, financial position, and cash flows as a standalone company during all periods presented.

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

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the accompanying consolidated financial statements and notes. See "Item 1A. Risk Factors" and the "Forward-Looking Statements" included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2018 ("Annual Report") for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated.

EXECUTIVE OVERVIEW

Our Company

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across two segments: Industrial Products and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. CSWI delivers products and systems that help contractors do their jobs better, faster and easier; make buildings safer and more aesthetically pleasing; protect valuable assets from corrosion; and improve the reliability of mission critical equipment. Our products include mechanical products for heating, ventilation and air conditioning ("HVAC") and refrigeration applications, sealants and high-performance specialty lubricants. Markets that we serve include HVAC, architecturally-specified building products, industrial, plumbing, energy, rail, mining and other general industrial markets. Our manufacturing operations are concentrated in the United States ("U.S.") and Canada, and we have distribution operations in Australia, Canada and the United Kingdom ("U.K."). 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 that 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, KATS Coatings, Jet-Lube Extreme, Smoke Guard, Safe-T-Switch, Mighty Bracket, Balco, Whitmore, Air Sentry, Oil Safe, Deacon, AC Leak Freeze and Greco Aluminum Railings.

Prior to the Share Distribution on September 30, 2015 (see discussion below), our operating companies operated as separate businesses. The consolidated financial statements included in this Annual Report include all revenues, costs, assets and liabilities directly attributable to the businesses discussed above. However, the combined financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had the businesses been operating as separate publicly traded ("standalone") companies during those periods. We 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 fiscal year ended March 31, 2018, we continued to experience strong sales growth in key end markets such as HVAC and plumbing, where our innovative chemical and mechanical products have increased market penetration. We also continue to benefit from a robust commercial construction cycle. During the fiscal year ended March 31, 2018, we also experienced decreased spending by many of our customers in the mining and rail end markets as customers adjusted to weakened demand in response to lower market prices for coal and other natural resources. These market conditions also indirectly impacted general industrial end markets that we serve. We expect that the current environment will persist into the next fiscal year, impacting primarily the rail and mining markets.

In February 2018, we announced a strategic repositioning to enhance our operating results, simplify our operating structure, and better align our resources to support our ongoing business strategy. This strategic repositioning included several key actions, including:

We initiated a plan to divest Strathmore Products (the "Coatings" business) in the third quarter of the fiscal year ended March 31, 2018, the revenues of which were approximately one-third of the former Coatings, Sealants & Adhesives ("CS&A") segment. In connection with this plan, the Coatings business was classified as assets held for sale and presented as discontinued operations.

We condensed our three reportable segments into two: Industrial Products and Specialty Chemicals. As a result, the Sealants and Adhesives businesses, which were part of the former CS&A segment, were integrated into the Specialty Chemicals segment.

We flattened our operational leadership structure, resulting in the departure of our President and Chief Operating Officer, and our operational leadership reporting directly to our Chairman and Chief Executive Officer.

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For additional information regarding discontinued operations and our segment realignment, see Note 1 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" ("Item 8") of this Annual Report.

The Share Distribution

On September 30, 2015, Capital Southwest Corporation ("Capital Southwest") spun-off certain of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses by means of a distribution of the outstanding shares of common stock of CSWI on a pro rata basis to holders of Capital Southwest common stock (the "Share Distribution"). CSWI became an independent, publicly-traded company on October 1, 2015 following the Share Distribution.

Following the Share Distribution, we incurred capital costs in the process of integrating our operations, including the consolidation of some of our manufacturing facilities and operational improvement initiatives. Through these efforts, we expect to continue to generate sales synergies through greater cross-selling opportunities and expansion of product line applications, and to generate cost synergies through operating more efficiently and effectively. We have also incurred additional costs as a result of being a public company, such as additional employee-related costs, costs to build out certain standalone corporate functions, information systems costs and other organizational-related costs. While we believe the majority of these expected post-Share Distribution costs have been incurred to date, we may incur additional costs in the future as we seek to further optimize our organization and operations.

Markets and Outlook

Looking ahead, fiscal year 2019 should be a transitional year as we expect to complete the disposition of the Coatings business, which is reflected in our discontinued operations. We expect this strategic repositioning to allow us to focus on a faster growing, more profitable and streamlined group of businesses and the underlying products, as we have simplified our reporting segments to Industrial Products and Specialty Chemicals. Our diverse product portfolio in those segments serve attractive end markets that should continue to benefit from growth, primarily in North America, but we anticipate continued growth in key international regions primarily for our specialty chemical product portfolio, such as Asia, Latin America, South America and the Middle East. We anticipate revenue growth in our key end markets during fiscal year ending March 31, 2019 due to our innovative technologies, new product introductions, product differentiation and favorable industry trends.

In fiscal year 2019, we expect capital expenditures to be approximately \$5 to \$7 million. Capital expenditures will be focused on maintenance and replacement, continuous improvement and revenue growth.

We were pleased with our most recent acquisition, Greco, as it outperformed in all respects from our acquisition model, driving revenue growth of 5.7% and \$2.8 million of our operating profit growth in the fiscal year ended March 31, 2018. We will continue to pursue bolt-on acquisitions in our key end markets and channels in fiscal year 2019, but we will remain disciplined in our approach, including but not limited to our assessment of valuation, prospective synergies, diligence, cultural fit, integration, etc.

HVAC

The HVAC market is our largest market served and it represented approximately 30% of our net sales in both fiscal years ended March 31, 2018 and 2017. We provide an extensive array of products for installation, repair and maintenance of HVAC systems that includes our largest product family, consisting of condensate switches, as well as condensate pans, air diffusers, condensate pumps, refrigerant caps, line set covers and other chemical and mechanical products. The industry is driven by new construction projects, as well as replacement and repair of existing HVAC systems. New HVAC systems are heavily influenced by macro trends in building construction. The HVAC market tends to be seasonal with the peak sales season beginning in March and continuing through August. Construction and repair is typically performed by contractors, and we utilize our global distribution network to drive sales of our brands to such contractors. For the fiscal year ending March 31, 2019, we anticipate growth in the HVAC market to be stronger than the gross domestic product.

Architecturally-Specified Building Products

Architecturally-specified building products represented approximately 28% and 24% of our net sales in the fiscal years ended March 31, 2018 and 2017, respectively. We manufacture and sell products such as engineered railings,

smoke and fire protection systems, expansion joints and stair edge nosings for large commercial buildings and parking facilities. Sales of these products are driven by architectural specifications and safety codes, and the sales process is typically long as these are multi-year construction projects. International expansion is driving revenues in this end market as larger buildings are being designed and built, as well as refurbished and retrofitted. The construction market is a key driver for sales of architecturally-specified building products. Our outlook for growth in new construction is slightly stronger than the growth expected in the U.S. gross domestic product in the fiscal year ending March 31, 2019 due to continued share expansion in our engineered railing products and technologies.

Table of Contents**Industrial**

The industrial end market represented approximately 15% and 17% of our net sales in the fiscal years ended March 31, 2018 and 2017, respectively. The industrial end market includes customers who manufacture chemicals, steel equipment and a wide variety of materials. We include sales of lubricants and breathers, as well as various other industrial products in the industrial end market. We serve this market primarily through a network of industrial distributors. We expect our sales into this market in the fiscal year ending March 31, 2019 to grow in line with the gross domestic product.

Plumbing

The plumbing market represented approximately 11% and 12% of our net sales in the fiscal years ended March 31, 2018 and 2017, respectively. We provide many products to the plumbing industry including thread sealants, solvent cements, fire-stopping products, condensate switches and trap guards, as well as other mechanical products.

Installation is typically performed by contractors, and we utilize our global distribution network to drive sales of our brands to contractors. We are not anticipating any significant changes in the overall plumbing market in the fiscal year ending March 31, 2019.

Energy

The energy market represented approximately 7% and 6% of our net sales in the fiscal years ended March 31, 2018 and 2017, respectively. We provide market-leading lubricants and anti-seize compounds, as well as greases, for use in maintenance of oilfield drilling equipment. The outlook for the energy industry is heavily dependent on the demand growth from both mature markets and developing geographies. We saw robust growth in the energy market in the fiscal year ended March 31, 2018 due in large part to increased drilling driven by increased global rig count activity and market share gains. We do not expect a similar expansion in drilling activity in the fiscal year ending March 31, 2019.

Rail

The rail market represented approximately 4% and 5% of our net sales in the fiscal years ended March 31, 2018 and 2017, respectively. We provide an array of products into the rail industry, including lubricants and lubricating devices for rail lines, which increase efficiency and reduce noise for and extend the life of rail cars. We leverage our technical expertise to build relationships with key decision-makers to ensure that our products meet required specifications. For the fiscal year ending March 31, 2019, we anticipate ongoing challenges in the rail industry as it continues to be impacted by the mining and energy markets. The reduction in North American coal consumption and transport coupled with the increased use of pipelines for transport of gas and oil is expected to continue to adversely impact the class 1 rail providers' operating margins, which tends to drive cost containment activity that limits the use of maintenance consumables.

Mining

The mining market represented approximately 4% of our net sales in both fiscal years ended March 31, 2018 and 2017. We provide market-leading lubricants to open gears used in large mining excavation equipment, primarily through our distribution network. The North American mining industry has experienced headwinds due to continued low coal demand, which is caused by lower oil and gas prices and increased regulations. We are not anticipating a significant improvement in the coal or non-coal related (e.g. iron, diamond, etc.) mining market conditions within North America in the fiscal year ending March 31, 2019; however, the mining industry outside of North America is expected to see growth in the fiscal year ending March 31, 2019.

RESULTS OF OPERATIONS

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

The acquisitions listed below impact comparability:

| Acquisition | Effective Date | Segment |
|-------------|-------------------|---------------------|
| Greco | February 28, 2017 | Industrial Products |
| Leak Freeze | December 16, 2015 | Specialty Chemicals |
| Deacon | October 1, 2015 | Specialty Chemicals |

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

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

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Net Revenues

| | Fiscal Years Ended March 31, | | |
|------------------------|------------------------------|-----------|-----------|
| (amounts in thousands) | 2018 | 2017 | 2016 |
| Revenues, net | \$326,222 | \$287,460 | \$266,917 |

Net revenues for the fiscal year ended March 31, 2018 increased \$38.8 million, or 13.5%, as compared with the fiscal year ended March 31, 2017, including \$16.5 million related to the Greco acquisition. Excluding the impact of acquisitions, increased sales volumes of both existing products and new products, particularly into the HVAC and plumbing end markets as well as thread sealants and firestopping products (\$16.4 million) and increases in the energy market (\$8.6 million), were partially offset by decreased sales into the legacy architecturally-specified building products and industrial (\$2.7 million) end markets.

Net revenues for the fiscal year ended March 31, 2017 increased \$20.5 million, or 7.7%, as compared with the fiscal year ended March 31, 2016, including \$5.1 million related to acquisitions. Excluding the impact of acquisitions, increased sales volume of both existing products and new products, particularly into the HVAC (\$11.8 million), architecturally-specified building products (\$8.1 million) and plumbing (\$2.3 million) markets, partially offset by decreased sales into the energy and rail (\$4.4 million) markets and mining (\$2.4 million) market.

Net revenues into the Americas, Europe, Middle East and Africa, and Asia Pacific represented approximately 90%, 6%, and 4%, respectively, of net revenues for the fiscal year ended March 31, 2018; 89%, 7% and 4%, respectively, of net revenues for the fiscal year ended March 31, 2017; and 87%, 8%, and 5%, respectively, of net revenues for the fiscal year ended March 31, 2016. The presentation of net revenues by geographic region is based on the location of the customer. For additional information regarding net revenues by geographic region, see Note 18 to our consolidated financial statements included in Item 8 of this Annual Report.

Gross Profit and Gross Profit Margin

| | Fiscal Years Ended March 31, | | |
|--------------------------------------------|------------------------------|-----------|-----------|
| (amounts in thousands, except percentages) | 2018 | 2017 | 2016 |
| Gross profit | \$147,916 | \$128,931 | \$134,667 |
| Gross profit margin | 45.3 | % 44.9 | % 50.5 |

Gross profit for the fiscal year ended March 31, 2018 increased \$19.0 million, or 14.7%, as compared with the fiscal year ended March 31, 2017, including \$6.4 million related to the Greco acquisition. Gross profit margin for the fiscal year ended March 31, 2018 of 45.3% increased from 44.9% for the fiscal year ended March 31, 2017. Excluding the impact of acquisitions, the increase is attributable to increased sales and lower restructuring and realignment costs.

Gross profit for the fiscal year ended March 31, 2017 decreased \$5.7 million, or 4.3%, as compared with the fiscal year ended March 31, 2016, including \$2.7 million related to acquisitions. Gross profit margin for the fiscal year ended March 31, 2017 of 44.9% decreased from 50.5% for the fiscal year ended March 31, 2016. The decrease was attributable to restructuring and realignment charges (\$5.1 million), a pension curtailment benefit in 2016 that did not recur (\$2.7 million) and increased other post-retirement benefits following the freeze of the pension plan in 2016 (\$0.8 million), partially offset by the impact of increased sales on absorption of fixed manufacturing costs.

Selling, General and Administrative Expense

| | Fiscal Years Ended March 31, | | |
|---------------------------------------------------|------------------------------|----------|----------|
| (amounts in thousands, except percentages) | 2018 | 2017 | 2016 |
| Operating and impairment expenses | \$97,202 | \$95,805 | \$88,472 |
| Operating and impairment expenses as a % of sales | 29.8 | % 33.3 | % 33.1 |

Selling, general and administrative expense for the fiscal year ended March 31, 2018 increased \$1.4 million, or 1.5%, as compared with the fiscal year ended March 31, 2017. The increase was attributable to increases from the acquired Greco business (\$3.5 million) mostly offset by lower severance costs (\$2.4 million) and implementation costs for our internal controls framework incurred in the prior fiscal year that did not recur.

Selling, general and administrative expense for the fiscal year ended March 31, 2017 increased \$7.3 million, or 8.3%, as compared with the fiscal year ended March 31, 2016. The increase was attributable to restructuring and realignment (\$2.6 million), executive transition and other severance costs (\$2.8 million), implementation costs related to the design of our internal controls

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framework (\$1.0 million), increased other post-retirement benefits following the freeze of the pension plan (\$1.2 million) and impairment of certain patents (\$0.3 million).

Operating Income

| (amounts in thousands, except percentages) | Fiscal Years Ended March 31, | | | | | |
|--------------------------------------------|------------------------------|----------|----------|---|--|--|
| | 2018 | 2017 | 2016 | | | |
| Operating income | \$50,714 | \$33,126 | \$46,195 | | | |
| Operating margin | 15.5 | % 11.5 | % 17.3 | % | | |

Operating income for the fiscal year ended March 31, 2018 increased by \$17.6 million, or 53.1%, as compared with the fiscal year ended March 31, 2017. The increase was a result of the \$19.0 million increase in gross profit, slightly offset by the \$1.4 million increase in selling, general and administrative expense as discussed above.

Operating income for the fiscal year ended March 31, 2017 decreased by \$13.1 million, or 28.3%, as compared with the fiscal year ended March 31, 2016. The decrease was primarily a result of the \$5.7 million decrease in gross profit and the \$7.3 million increase in selling, general and administrative expense as discussed above.

Other income and expense, net

Interest expense, net for the fiscal year ended March 31, 2018 decreased \$0.4 million as compared with the fiscal year ended March 31, 2017, primarily due to an overall reduction in average outstanding debt under our Revolving Credit Facility (described in Note 8 to our consolidated financial statements included in Item 8 of this Annual Report).

Interest expense, net for the fiscal year ended March 31, 2017 decreased \$0.3 million as compared with the fiscal year ended March 31, 2016, primarily due to interest expense recognized on the loan related to the acquisition of Strathmore and on our Revolving Credit Facility.

Other income, net decreased by \$1.9 million for the fiscal year ended March 31, 2018 to expense of \$0.1 million as compared with the fiscal year ended March 31, 2017. The decline was primarily due to a decrease in gains arising from transaction in currencies other than our sites' functional currencies.

Other income, net increased by \$1.9 million for the fiscal year ended March 31, 2017 to income of \$1.7 million as compared with the fiscal year ended March 31, 2016. The increase was primarily due to an increase in gains arising from transaction in currencies other than our sites' functional currencies.

Provision for Income Taxes and Effective Tax Rate

The provision for income taxes for the fiscal year ended March 31, 2018 was \$15.6 million, representing an effective tax rate of 32.3%, as compared with the provision of \$14.4 million, representing an effective tax rate of 44.7%, for the fiscal year ended March 31, 2017 and the provision of \$19.2 million, representing an effective tax rate of 44.6%, for the fiscal year ended March 31, 2016. As compared with the statutory rate for the fiscal year ended March 31, 2018, the provision for income taxes was primarily impacted by the one-time repatriation charge on earnings from foreign subsidiaries, which increased the provision by \$1.9 million, net of the related foreign tax credit, and the effective tax rate by 3.9%, as well as a deferred tax true-up adjustment, which increased the provision by \$1.3 million and the effective tax rate by 2.7%. Other items impacting the effective tax rate include foreign operations activity in countries with lower statutory rates and domestic operations activity in states with higher statutory rates.

We accrue interest and penalties on uncertain tax positions as a component of our provision for income taxes. We accrued interest and penalties on uncertain tax positions of \$0.1 million and \$0.2 million, respectively, for the fiscal year ended March 31, 2018. We accrued interest and penalties on uncertain tax positions of \$0.2 million and \$0.2 million, respectively, for the fiscal year ended March 31, 2017. We accrued interest and penalties on uncertain tax positions of \$0.2 million and \$0.2 million, respectively, for the fiscal year ended March 31, 2016.

As of March 31, 2018 and 2017, we had \$0.2 million and \$0.6 million, respectively, in tax effected net operating loss carryforwards. Net operating loss carryforwards will expire in periods beyond the next five years.

Business Segments

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

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Industrial Products Segment Results

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

| | Fiscal Years Ended March 31, | | |
|--------------------------------------------|------------------------------|-----------|-----------|
| (amounts in thousands, except percentages) | 2018 | 2017 | 2016 |
| Revenues, net | \$186,483 | \$158,654 | \$138,594 |
| Operating income | 43,984 | 32,893 | 31,075 |
| Operating margin | 23.6 | % 20.7 | % 22.4 |

Net revenues for the fiscal year ended March 31, 2018 increased \$27.8 million, or 17.5%, as compared with the fiscal year ended March 31, 2017, including \$16.5 million related to the acquired Greco business. Excluding the impact of the Greco acquisition, sales volumes increased in both existing products and new products, particularly into the HVAC and plumbing (\$13.1 million) markets, partially offset by a decline in legacy architecturally-specified building products and industrial (\$2.7 million) markets.

Net revenues for the fiscal year ended March 31, 2017 increased \$20.1 million or 14.5%, as compared with the fiscal year ended March 31, 2016, including \$1.2 million related to acquisitions. Excluding the impact of acquisitions, sales volumes increased in both existing products and new products, particularly into the HVAC (\$11.8 million), architecturally-specified building products (\$8.1 million) and plumbing (\$2.3 million) markets and were slightly offset by a decline in sales into rail markets.

Operating income for the fiscal year ended March 31, 2018 increased \$11.1 million, or 33.7%, as compared with the fiscal year ended March 31, 2017, including \$2.8 million related to the Greco acquisition. Excluding the impact of acquisitions, the increase was primarily attributable to increased net revenues, which includes the impact of price increases, a decline in restructuring and realignment costs (\$0.3 million) and a decline in costs related to the design of our internal controls framework.

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

Specialty Chemicals Segment Results

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

| | Fiscal Years Ended March 31, | | |
|--------------------------------------------|------------------------------|-----------|-----------|
| (amounts in thousands, except percentages) | 2018 | 2017 | 2016 |
| Revenues, net | \$139,735 | \$128,714 | \$128,051 |
| Operating income | 18,427 | 13,508 | 22,110 |
| Operating margin | 13.2 | % 10.5 | % 17.3 |

Net revenues for the fiscal year ended March 31, 2018 increased \$11.0 million, or 8.6%, as compared with the fiscal year ended March 31, 2017. The increase was attributable to increased sales volumes into the energy market (\$7.6 million) and increased sales volumes and prices of thread sealants and firestopping products (\$3.4 million).

Net revenues for the fiscal year ended March 31, 2017 increased \$0.7 million, or 0.5%, as compared with the fiscal year ended March 31, 2016, net of \$3.9 million contributed by acquisitions. Excluding the impact of acquisitions, the decrease was due to decreases in sales volumes into the energy (\$6.7 million), industrial (\$1.9 million) and rail (\$1.8 million) markets, partially offset by increased sales of thread sealants and firestopping products (\$7.1 million).

Operating income for the fiscal year ended March 31, 2018 increased \$4.9 million, or 36.4%, as compared with the fiscal year ended March 31, 2017. The increase was attributable to the impact of increased net revenues and a decline in restructuring and realignment costs (\$5.3 million), partially offset by negative product mix.

Operating income for the fiscal year ended March 31, 2017 decreased \$8.6 million, or 38.9%, as compared with the fiscal year ended March 31, 2016, net of \$2.2 million contributed by acquisitions. Excluding the impact of acquisitions, the decrease was attributable to the impact of decreased net revenue, restructuring and realignment costs

(\$7.1 million), a pension plan curtailment benefit in the prior year that did not recur (\$4.8 million) and inventory write-offs (\$0.4 million).

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For additional information on segments, see Note 18 to our consolidated financial statements included in Item 8 of this Annual Report.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Analysis

| (amounts in thousands) | Fiscal Years Ended March 31, | | |
|----------------------------------------------------------------------|------------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Net cash provided by operating activities from continuing operations | \$57,384 | \$39,361 | \$37,757 |
| Net cash used in investing activities from continuing operations | (3,035) | (23,475) | (108,474) |
| Net cash (used in) provided by financing activities | (51,521) | (15,318) | 74,694 |

Existing cash, cash generated by operations and borrowings available under our Revolving Credit Facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance (including cash and equivalents and bank time deposits) at March 31, 2018 was \$11.7 million, as compared with \$23.1 million at March 31, 2017.

For the fiscal year ended March 31, 2018, our cash provided by operating activities from continuing operations was \$57.4 million, as compared with \$39.4 million and \$37.8 million for the fiscal years ended March 31, 2017 and 2016, respectively. Cash flows from working capital increased for the fiscal year ended March 31, 2018 due to lower prepaid expenses and other current assets (\$7.7 million), higher accounts payable and other current liabilities (\$6.3 million) and lower inventories (\$1.0 million) and , partially offset by higher accounts receivable (\$2.7 million). Cash flows from working capital increased for the fiscal year ended March 31, 2017 due to higher accounts payable and other current liabilities (\$5.7 million), partially offset by higher accounts receivable (\$5.0 million) and higher prepaid expenses and other current assets (\$0.8 million). Cash flows from working capital increased for the fiscal year ended March 31, 2016, due primarily to lower inventories (\$4.6 million), higher accounts payable and other current liabilities (\$3.1 million) and lower accounts receivable (\$0.9 million), partially offset by higher prepaid expenses and other current assets (\$4.7 million).

Cash flows used in investing activities from continuing operations during the fiscal year ended March 31, 2018 were \$3.0 million as compared with \$23.5 million and \$108.5 million for the fiscal years ended March 31, 2017 and 2016, respectively. Capital expenditures during the fiscal years ended March 31, 2018, 2017 and 2016 were \$5.5 million, \$6.9 million and \$9.3 million, respectively. Our capital expenditures are focused on capacity expansion, continuous improvement, automation and consolidation of manufacturing facilities. As discussed in Note 2 to our consolidated financial statements included in Item 8 of this Annual Report, during the fiscal year ended March 31, 2017 we acquired Greco Aluminum Railings for \$28.2 million, net of cash acquired. During the fiscal year ended March 31, 2016 we acquired Strathmore for \$68.8 million, Deacon for \$12.6 million and Leak Freeze for \$16.3 million. Cash flows used in financing activities during the fiscal years ended March 31, 2018 and 2017 were \$51.5 million and \$15.3 million, respectively, as compared with cash provided by financing activities of \$74.7 million for the fiscal year ended March 31, 2016. Cash outflows during the fiscal year ended March 31, 2018 and 2017 resulted primarily from \$49.2 million and \$16.5 million, respectively, in repayments on our lines of credit (as discussed in Note 8 to our consolidated financial statements included in Item 8 of this Annual Report). Cash inflows during the fiscal year ended March 31, 2016 resulted primarily from \$179.0 million of borrowings on our Revolving Credit Facility, which we used to repay \$116.1 million on amounts outstanding under the Strathmore Acquisition Term Loan and the RectorSeal Line of Credit and fund the acquisition of Leak Freeze, and a contribution of \$13.0 million from Capital Southwest in connection with the Share Distribution.

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

Acquisitions and Dispositions

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

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

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Financing

Credit Facilities

See Note 8 to our consolidated financial statements included in Item 8 of this Annual Report for a discussion of our indebtedness. We were in compliance with all covenants contained in our credit facility as of March 31, 2018.

We have entered into an interest rate swap agreement to hedge our exposure to variable interest payments related to our indebtedness. This agreement is more fully described in Note 9 to our consolidated financial statements included in Item 8 and in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of this Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2018, 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.

CONTRACTUAL OBLIGATIONS

The following table presents a summary of our contractual obligations at March 31, 2018 (in thousands):

| | Payments due by Period (1) | | | | |
|-------------------------------------------|----------------------------|-----------|-----------|-----------|----------|
| | < 1 Year | 1-3 Years | 3-5 Years | > 5 Years | Total |
| Long-term debt obligations, principal (2) | \$561 | \$ 1,122 | \$ 13,122 | \$ 9,215 | \$24,020 |
| Long-term debt obligations, interest (2) | 1,223 | 2,364 | 1,442 | 3,678 | 8,707 |
| Operating lease obligations (3) | 2,344 | 3,971 | 1,260 | 3,118 | 10,693 |
| Purchase obligations (4) | 28,768 | 1,417 | — | — | 30,185 |
| Other long-term liabilities (5) | 798 | 220 | — | — | 1,018 |
| Total (6) | \$33,694 | \$ 9,094 | \$ 15,824 | \$ 16,011 | \$74,623 |

The less than one-year category represents the fiscal year ended March 31, 2019, the 1-3 years category represents (1) fiscal years ending March 31, 2020 and 2021, the 3-5 years category represents fiscal years ending March 31, 2022 and 2023 and the greater than five years category represents fiscal years ending March 31, 2024 and thereafter.

(2) Amounts include principal and interest cash payments through the maturity of the outstanding debt obligations. See Note 8 to our consolidated financial statements included in Item 8 of this Annual Report.

(3) Sales taxes, value added taxes and goods and services taxes included as part of recurring lease payments are excluded from the amounts shown above.

(4) Purchase obligations include agreements to purchase goods or services that are enforceable, legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(5) Amounts primarily include deferred consideration payable due to acquisitions and future payments under outstanding deferred compensation awards. The liability for retirement benefits payable related to our defined benefit pension plans is excluded from the contractual obligations table as it does not represent expected liquidity requirements.

(6) Operating lease and purchase obligations denominated in foreign currencies are projected based on the exchange rate in effect on March 31, 2018. Excludes amounts that have been eliminated in our consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based upon information available at the time of the estimates or assumptions, including our historical experience, where relevant. The most significant estimates made by management include: timing and amount of revenue recognition; deferred taxes and tax reserves; pension benefits; and valuation of goodwill and indefinite-lived intangible assets, both at the time of initial acquisition, as well as part of recurring impairment analyses, as applicable. The significant estimates are reviewed at least annually, if not quarterly, by management. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may differ from the

estimates, and the difference may be material.

Our critical accounting policies are those policies that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following represent our critical accounting policies. For a summary of all of our significant accounting policies, see Note 1 to our consolidated

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financial statements included in Item 8 of this Annual Report. Management and our external auditors have discussed our critical accounting estimates and policies with the Audit Committee of our Board of Directors.

Revenue Recognition

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

Deferred Taxes and Tax Reserves

Deferred tax assets and liabilities are determined based on temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Based on the evaluation of available evidence, both positive and negative, we recognize future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, to the extent that these benefits are more likely than not to be realized. We base our judgment of the recoverability of our deferred tax assets primarily on historical earnings, our estimate of current and expected future earnings using historical and projected future operating results, and prudent and feasible tax planning strategies. The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various taxing authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. Tax benefits recognized in the financial statements from uncertain tax positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. For the fiscal year ended March 31, 2018, we had a net decrease in our uncertain tax position of \$0.1 million. This included settlements of \$0.7 million, an increase of \$0.6 million and an additional \$0.3 million in interest and penalties in income tax expense. For the fiscal year ended March 31, 2017, we recognized an uncertain tax position in the amount of \$2.0 million, and we recognized \$0.4 million in interest and penalties in income tax expense. For the fiscal year ended March 31, 2016, we recognized an uncertain tax position in the amount of \$0.9 million and we recognized \$0.4 million in interest and penalties in income tax expense. Our liability for uncertain tax positions contains uncertainties as management is required to make assumptions and apply judgments to estimate exposures associated with our tax positions.

We are currently under audit for our U.S. federal income tax return for the year ended March 31, 2016. As this audit just began, we have not been notified of any potential adjustments.

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

Pension Benefits

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

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

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The assumptions utilized to compute expense and benefit obligations are shown in Note 13 to our consolidated financial statements included in Item 8 of this Annual Report. These assumptions are assessed at least annually in consultation with independent actuaries as of March 31 and adjustments are made as needed. We evaluate prevailing market conditions, including appropriate rates of return, interest rates and medical inflation (health care cost trend) rates. We ensure that our significant assumptions are within the reasonable range relative to market data. The methodology to set our significant assumptions includes:

Discount rates are estimated using high quality corporate bond yields with a duration matching the expected benefit payments. The discount rate is obtained from a universe of Aa-rated non-callable bonds across the full maturity spectrum to establish a weighted average discount rate. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.

The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected future experience for trust asset returns, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

Depending on the assumptions used, pension expense could vary within a range of outcomes and have a material effect on reported earnings. In addition, the assumptions can materially affect benefit obligations and future cash funding. Actual results in any given year may differ from those estimated because of economic and other factors. We evaluate the funded status of the Qualified Plan using current assumptions and determine the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations, cash flow requirements and other factors.

Goodwill and Indefinite-Lived Intangible Assets

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

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

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

For purposes of completing the annual goodwill impairment test for fiscal year ended March 31, 2018, a qualitative assessment was utilized to assess the recoverability of goodwill for our reporting units. The qualitative assessments were performed using an evaluation of events and circumstances as noted above. Additionally, management performed a quantitative assessment on two of our reporting units. Based on the current estimate of fair value for both of these reporting units, we determined that substantial excess fair value over the current carrying value exists. There were no goodwill impairment losses recognized for the fiscal years ended March 31, 2018, 2017 or 2016.

We have indefinite-lived intangible assets in the form of trademarks and license agreements. We review these intangible assets at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Significant assumptions used in the impairment test include the discount

rate, royalty rate, future projections and terminal value growth rate. These inputs are considered non-recurring level three inputs within the fair value hierarchy. An impairment loss would be recognized when estimated future cash flows are less than their carrying amount. We recorded impairment losses on intangible assets (excluding those related to discontinued operations) of \$0.0, \$0.2 million and \$0.0 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively, for continuing operations.

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ACCOUNTING DEVELOPMENTS

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

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Variable Rate Indebtedness

We are subject to interest rate risk on our variable rate indebtedness. Fluctuations in interest rates have a direct effect on interest expense associated with our outstanding indebtedness. As of March 31, 2018, we had \$12.0 million in outstanding variable rate indebtedness, after consideration of the interest rate swap. We manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements. At March 31, 2018, we had an interest rate swap agreement that covered 50% of the \$24.0 million of our total outstanding indebtedness. At March 31, 2018, the unhedged variable rate indebtedness of \$12.0 million had a weighted average interest rate of 3.13%. Each quarter point change in interest rates would result in a change of less than \$0.1 million in our interest expense on an annual basis.

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

Foreign Currency Exchange Rate Risk

We conduct a small portion of our operations outside of the U.S. in currencies other than the U.S. dollar. Our non-U.S. operations are conducted primarily in their local currencies, which are also their functional currencies, and include the British pound, Canadian dollar and Australian dollar. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions denominated in a currency other than a non-U.S. operation's functional currency. We realized net gains (losses) associated with foreign currency translation of \$3.3 million, (\$2.9) million and (\$1.4) million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively, which are included in accumulated other comprehensive income (loss). We recognized foreign currency transaction net (losses) gains of (\$0.4) million, \$1.1 million and (\$0.1) million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively, which are included in other income (expense), net on our consolidated statements of operations.

Based on a sensitivity analysis at March 31, 2018, a 10% change in the foreign currency exchange rates for the fiscal year ended March 31, 2018 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.

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors and Shareholders
CSW Industrials, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of CSW Industrials, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of March 31, 2018 and 2017, the related consolidated statements of operations, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated May 30, 2018 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2015.

Dallas, Texas
May 30, 2018

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CSW INDUSTRIALS, INC.

CONSOLIDATED BALANCE SHEETS

| (amounts in thousands, except per share amounts) | March 31, | |
|--------------------------------------------------------------|-----------|-----------|
| | 2018 | 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$11,706 | \$23,146 |
| Bank time deposits | — | 1,776 |
| Accounts receivable, net | 63,383 | 59,831 |
| Inventories, net | 42,974 | 43,665 |
| Prepaid expenses and other current assets | 7,077 | 6,722 |
| Current assets, discontinued operations | 2,427 | 11,906 |
| Total current assets | 127,567 | 147,046 |
| Property, plant and equipment, net | 54,473 | 56,812 |
| Goodwill | 81,764 | 80,863 |
| Intangible assets, net | 53,054 | 59,312 |
| Other assets | 23,958 | 16,011 |
| Noncurrent assets, discontinued operations | — | 38,383 |
| Total assets | \$340,816 | \$398,427 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$16,826 | \$10,372 |
| Accrued and other current liabilities | 23,501 | 22,382 |
| Current portion of long-term debt | 561 | 561 |
| Current liabilities, discontinued operations | 3,966 | 5,184 |
| Total current liabilities | 44,854 | 38,499 |
| Long-term debt | 23,459 | 72,646 |
| Retirement benefits payable | 2,017 | 1,464 |
| Other long-term liabilities | 4,721 | 13,380 |
| Total liabilities | 75,051 | 125,989 |
| Equity: | | |
| Common shares, \$0.01 par value | 158 | 157 |
| Shares authorized – 50,000 | | |
| Shares issued – 15,957 and 15,846, respectively | | |
| Preferred shares, \$0.01 par value | — | — |
| Shares authorized – 10,000 | | |
| Shares issued – 0 | | |
| Additional paid-in capital | 42,684 | 38,701 |
| Treasury shares, at cost (80 and 29 shares, respectively) | (3,252) | (1,011) |
| Retained earnings | 233,650 | 245,026 |
| Accumulated other comprehensive loss | (7,475) | (10,435) |
| Total equity | 265,765 | 272,438 |
| Total liabilities and equity | \$340,816 | \$398,427 |
| See accompanying notes to consolidated financial statements. | | |

Table of ContentsCSW INDUSTRIALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| (Amounts in thousands, except per share amounts) | Fiscal Years Ended March 31, | | |
|--------------------------------------------------|------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Revenues, net | \$326,222 | \$287,460 | \$266,917 |
| Cost of revenues | (178,306) | (158,529) | (132,250) |
| Gross profit | 147,916 | 128,931 | 134,667 |
| Selling, general and administrative expense | (97,202) | (94,490) | (88,472) |
| Impairment loss | — | (1,315) | — |
| Operating income | 50,714 | 33,126 | 46,195 |
| Interest expense, net | (2,317) | (2,695) | (3,036) |
| Other (expense) income, net | (150) | 1,729 | (186) |
| Income before income taxes | 48,247 | 32,160 | 42,973 |
| Provision for income taxes | (15,565) | (14,360) | (19,166) |
| Income from continuing operations | 32,682 | 17,800 | 23,807 |
| (Loss) income from discontinued operations | (44,564) | (6,729) | 1,664 |
| Net (loss) income | \$(11,882) | \$11,071 | \$25,471 |

Basic earnings (loss) per common share:

| | | | |
|-------------------------|-----------|---------|--------|
| Continuing operations | \$2.09 | \$1.13 | \$1.52 |
| Discontinued operations | (2.85) | (0.43) | 0.11 |
| Net (loss) income | \$(0.76) | \$0.70 | \$1.63 |

Diluted earnings (loss) per common share:

| | | | |
|-------------------------|-----------|---------|--------|
| Continuing operations | \$2.09 | \$1.12 | \$1.52 |
| Discontinued operations | (2.85) | (0.42) | 0.10 |
| Net (loss) income | \$(0.76) | \$0.70 | \$1.62 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

| (Amounts in thousands) | Fiscal Years Ended March 31, | | |
|-----------------------------------------------------------------------------------------------------|------------------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Net (loss) income | \$(11,882) | \$11,071 | \$25,471 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | 3,295 | (2,884) | (1,371) |
| Cash flow hedging activity, net of taxes of \$(101), \$(441) and \$8, respectively | 294 | 819 | (15) |
| Pension and other post retirement effects, net of taxes of \$337, \$311 and \$(2,145), respectively | (629) | (672) | 3,981 |
| Other comprehensive income (loss) | 2,960 | (2,737) | 2,595 |
| Comprehensive (loss) income | \$(8,922) | \$8,334 | \$28,066 |

See accompanying notes to consolidated financial statements.

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CSW INDUSTRIALS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

| (Amounts in thousands) | Common Stock | Treasury Shares | Additional Paid-In Capital | Retained Earnings | Net Investment of Capital Southwest | Accumulated Other Comprehensive Loss | Total Equity |
|------------------------------------------------------------------------|-----------------|--------------------|----------------------------------|----------------------|----------------------------------------------|-----------------------------------------------|-----------------|
| March 31, 2015 | \$ — | \$— | \$— | \$208,784 | \$ 6,110 | \$ (10,293) | \$204,601 |
| Share-based and other executive compensation | — | — | 2,231 | — | — | — | 2,231 |
| Stock activity under stock plans | — | — | 96 | — | — | — | 96 |
| Tax benefit associated with share-based compensation | — | — | 212 | — | — | — | 212 |
| Net Income | — | — | — | 25,471 | — | — | 25,471 |
| Dividends | — | — | — | (300) | — | — | (300) |
| Other comprehensive income, net of tax | — | — | — | — | — | 2,595 | 2,595 |
| Effects of Share Distribution and contributions from Capital Southwest | 156 | — | 29,058 | — | (6,110) | — | 23,104 |
| Balance at March 31, 2016 | \$ 156 | \$— | \$31,597 | \$233,955 | \$— | \$ (7,698) | \$258,010 |
| Share-based and other executive compensation | — | — | 4,641 | — | — | — | 4,641 |
| Stock activity under stock plans | 1 | (1,011) | 2,169 | — | — | — | 1,159 |
| Tax benefit associated with share-based compensation | — | — | 294 | — | — | — | 294 |
| Net income | — | — | — | 11,071 | — | — | 11,071 |
| Other comprehensive income, net of tax | — | — | — | — | — | (2,737) | (2,737) |
| Balance at March 31, 2017 | \$ 157 | \$(1,011) | \$38,701 | \$245,026 | \$— | \$ (10,435) | \$272,438 |
| Adoption of ASU 2016-09 | — | — | (506) | 506 | — | — | — |
| Share-based and other executive compensation | — | — | 4,161 | — | — | — | 4,161 |
| Stock activity under stock plans | 1 | (1,061) | 328 | — | — | — | (732) |
| Repurchase of common shares | — | (1,180) | — | — | — | — | (1,180) |
| Net loss | — | — | — | (11,882) | — | — | (11,882) |
| Other comprehensive income, net of tax | — | — | — | — | — | 2,960 | 2,960 |
| Balance at March 31, 2018 | \$ 158 | \$(3,252) | \$42,684 | \$233,650 | \$— | \$ (7,475) | \$265,765 |

See accompanying notes to consolidated financial statements.

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CSW INDUSTRIALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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| | Fiscal Years Ended March 31, | | |
|--------------------------------------------------------------------------------------|------------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | |
| Net (loss) income | \$(11,882) | \$11,071 | \$25,471 |
| Less: (Loss) income from discontinued operations | (44,564) | (6,729) | 1,664 |
| Income from continuing operations | 32,682 | 17,800 | 23,807 |
| Adjustments to reconcile net (loss) income to cash provided by operating activities: | | | |
| Depreciation | 7,651 | 7,470 | 6,507 |
| Amortization of intangible and other assets | 7,282 | 6,284 | 5,231 |
| Provision for inventory reserves | 235 | 167 | — |
| Provision for doubtful accounts, net of recoveries | (457) | 131 | (282) |
| Share-based and other executive compensation | 4,161 | 4,642 | 2,231 |
| Acquisition-related non-cash gain | — | (376) | (1,950) |
| Net (gain) loss on disposals of property, plant and equipment | (70) | 221 | 56 |
| Pension plan curtailment benefit | — | — | (8,020) |
| Net pension (benefit) expense | (1,062) | (1,092) | 3,506 |
| Impairment of assets | — | 1,315 | — |
| Net deferred taxes | 1,640 | 464 | 7,262 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (2,698) | (5,028) | 884 |
| Inventories, net | 992 | 214 | 4,573 |
| Prepaid expenses and other current assets | 7,651 | (793) | (4,742) |
| Other assets | (106) | (112) | (3,211) |
| Accounts payable and other current liabilities | 6,263 | 5,669 | 3,082 |
| Retirement benefits payable and other liabilities | (6,780) | 2,385 | (1,177) |
| Net cash provided by operating activities, continuing operations | 57,384 | 39,361 | 37,757 |
| Net cash (used in) provided by operating activities, discontinued operations | (14,228) | (325) | 3,773 |
| Net cash provided by operating activities | 43,156 | 39,036 | 41,530 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (5,534) | (6,869) | (9,306) |
| Proceeds from sale of assets held for investment | 547 | — | — |
| Proceeds from sale of assets | 92 | 605 | 46 |
| Net change in bank time deposits | 1,860 | 10,968 | (1,978) |
| Cash paid for acquisitions, net of cash acquired | — | (28,179) | (97,236) |
| Net cash used in investing activities, continuing operations | (3,035) | (23,475) | (108,474) |
| Net cash used in investing activities, discontinued operations | (1,510) | (2,493) | (1,747) |
| Net cash used in investing activities | (4,545) | (25,968) | (110,221) |
| Cash flows from financing activities: | | | |
| Borrowings on lines of credit | — | — | 179,040 |
| Repayments on lines of credit | (49,187) | (16,476) | (116,061) |
| Payments of deferred loan costs | (421) | — | (1,081) |
| Purchase of treasury shares | (2,241) | (1,011) | — |
| Cash contribution from Capital Southwest | — | — | 13,000 |
| Proceeds from stock option activity | 328 | 2,169 | 96 |
| Dividends paid to Capital Southwest | — | — | (300) |
| Net cash (used in) provided by financing activities | (51,521) | (15,318) | 74,694 |
| Effect of exchange rate changes on cash and equivalents | 1,470 | (591) | (464) |
| Net change in cash and cash equivalents | (11,440) | (2,841) | 5,539 |
| Cash and cash equivalents, beginning of period | 23,146 | 25,987 | 20,448 |

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| | | | |
|------------------------------------------------------|----------|----------|----------|
| Cash and cash equivalents, end of period | \$11,706 | \$23,146 | \$25,987 |
| Supplemental non-cash disclosure: | | | |
| Cash paid during the year for interest | \$2,118 | \$2,623 | \$3,074 |
| Cash paid during the year for income taxes | 9,673 | 9,793 | 18,298 |
| Pension plan assets contributed by Capital Southwest | — | — | 10,357 |

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See accompanying notes to consolidated financial statements.

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CSW Industrials, Inc. (“CSWI,” the “Company,” “we,” “our” or “us”) is a diversified industrial growth company with well-established, scalable platforms and domain expertise across two segments: Industrial Products 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, 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, KATS® Coatings, Safe-T-Switch® condensate overflow shutoff devices, Air Sentry® breathers, Deacon® high temperature sealants, AC Leak Freeze® to stop refrigerant leaks and Greco Aluminum Railings®.

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

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

Restructuring – During the fiscal year ended March 31, 2017, we initiated a restructuring program related to our Industrial Products segment. The program was initiated in response to excess capacity, which caused us to perform a facility rationalization analysis. The restructuring program is complete and no additional costs are expected to be incurred. There were other costs in the prior years, which are now presented as part of discontinued operations. Restructuring charges are as follows:

| (in thousands) | Severance/ Retention | Asset Write-down | Other (a) | Total |
|---------------------------------------------|-------------------------|---------------------|--------------|--------|
| For the year ended March 31, 2018 | | | | |
| Cost of revenues | \$ — | \$ 69 | \$ 163 | \$ 232 |
| Selling, general and administrative expense | — | — | — | — |
| Total | \$ — | \$ 69 | \$ 163 | \$ 232 |
| Inception to Date Restructuring Charges | | | | |
| Cost of revenues | \$ 291 | \$ 69 | \$ 496 | \$ 856 |
| Selling, general and administrative expense | — | — | — | — |
| Total | \$ 291 | \$ 69 | \$ 496 | \$ 856 |

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

Basis of Presentation – CSWI began operations on September 30, 2015 as a result of the Share Distribution. With the exception of cash funded at inception and the contributed capital stock of Capital Southwest, we did not own any material assets prior to the Share Distribution. The historical financial position, results of operations and cash flows included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2018 (“Annual Report”) represent the consolidated financial statements of CSWI. Equity accounts presented in the balance sheet as of March 31, 2016 and for all subsequent periods represent the equity of CSWI. The consolidated financial statements have been prepared on

a standalone basis and are derived from the underlying accounting records of the underlying businesses in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”).

The consolidated financial statements include all revenues, costs, assets and liabilities directly attributable to CSWI.

All significant intercompany balances and transactions have been eliminated in consolidation.

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Timing and amount of revenue recognition;

Deferred taxes and tax reserves;

Pension benefits; and

Valuation of goodwill and indefinite-lived intangible assets.

Cash and Cash Equivalents – We consider all highly liquid instruments purchased with original maturities of three months or less and money market accounts to be cash equivalents. We maintain our cash and cash equivalents at financial institutions for which the combined account balances in individual institutions may exceed insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of insurance coverage. We had deposits in domestic banks of \$4.0 million and \$0.4 million at March 31, 2018 and 2017, respectively, and balances of \$7.7 million and \$22.2 million were held in foreign currencies in foreign banks at March 31, 2018 and 2017, respectively.

Bank Time Deposits – Bank time deposits include investments with maturities of over three months that are redeemable within one year of the fiscal year end without significant penalty. Our bank time deposits of \$0.0 and \$1.8 million as of March 31, 2018 and 2017, respectively, were certificates of deposit held in Canada and the United Kingdom.

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

Inventories and Related Reserves – Inventories are stated at the lower of cost or market and include raw materials, supplies, direct labor and manufacturing overhead. Cost is determined using the last-in, first-out (“LIFO”) method for valuing inventories at our primary domestic operations. Our foreign subsidiaries use either the first-in, first out method or the weighted average cost method to value inventory. Foreign inventories represent approximately 9% and 6% of total inventories as of March 31, 2018 and 2017, respectively.

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

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

Land improvements 5 to 40 years

Buildings and improvements 7 to 40 years

Plant, office and lab equipment 5 to 10 years

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

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

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

macroeconomic conditions, industry and market considerations, cost factors, financial performance factors, entity-specific events and changes in carrying value to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

If a reporting unit fails the qualitative assessment, then valuation models and other relevant data are used to estimate the reporting unit's fair value. The valuation models require the input of subjective assumptions. We use an income approach for impairment testing of goodwill and indefinite-lived intangible assets, using a discounted cash flow method. Estimates of future revenue and expense are made for five years, growth estimates are made to calculate terminal value and a discount rate is used

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

that approximates our weighted average cost of capital. We perform qualitative or quantitative assessments to test asset carrying values for impairment at January 31, which is the annual impairment testing date. No impairment loss was recognized as a result of the impairment tests for the fiscal years ended March 31, 2018, 2017 and 2016.

We have intangible assets consisting of patents, trademarks, customer lists and non-compete agreements.

Definite-lived intangible assets are assessed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. In addition, we have other trademarks and license agreements that are considered to have indefinite lives. We review indefinite-lived intangible assets at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Significant assumptions used in the impairment test include the discount rate, royalty rate, future projections and terminal value growth rate. These inputs are considered non-recurring level three inputs within the fair value hierarchy. An impairment loss would be recognized when estimated future cash flows are less than their carrying amount. We recorded an impairment of intangible assets of continuing operations of \$0.0, \$0.2 million and \$0.0 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. See Note 3 for discussion of impairment of intangible assets of discontinued operations.

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

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

Fair Values of Financial Instruments – Our financial instruments are presented at fair value in our consolidated balance sheets, with the exception of our long-term debt, as discussed in Note 8. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

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

Hierarchical levels are as follows:

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

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

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

Recurring fair value measurements are limited to investments in derivative instruments and reserves for contingent consideration. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivative instruments are included in Note 9. The fair value measurements of our reserves for contingent consideration were classified as Level III and generally determined using a weighted average probability model based primarily on projected net revenues.

Derivative Instruments and Hedge Accounting – We do not use derivative instruments for trading or speculative purposes. We enter into interest rate swap agreements for the purpose of hedging our cash flow exposure to floating

interest rates on certain portions of our debt. All derivative instruments are recognized on the balance sheet at their fair values. Changes in the fair value of a designated interest rate swap are recorded in other comprehensive loss until earnings are affected by the underlying hedged item. Any ineffective portion of the gain or loss is immediately recognized in earnings. Upon settlement, realized gains and losses are recognized in interest expense in the consolidated statements of operations.

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

gains or losses remain in accumulated other comprehensive loss until the underlying hedged item is recognized. If it becomes probable that a hedged forecasted transaction will not occur, deferred gains or losses on the hedging instrument are recognized in earnings immediately.

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

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

Discount rates are estimated using high quality corporate bond yields with a duration matching the expected benefit payments. The discount rate is obtained from a universe of Aa-rated non-callable bonds across the full maturity spectrum to establish a weighted average discount rate. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.

The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected future experience for trust asset returns, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

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

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

Revenue Recognition – We generally recognize revenue upon shipment of product, at which time title and risk of loss pass to the customer. Additionally, we require that all of the following circumstances are satisfied: a) persuasive evidence of an arrangement exists, b) price is fixed or determinable, c) collectability is reasonably assured and d) delivery has occurred or services have been rendered. Net revenues represent gross revenues invoiced to customers less certain related charges for contractual discounts or rebates. Revenues for certain long-term contracts are recorded on the percentage of completion method with progress measured on a cost-to-cost basis, and represent less than 6% of annual net sales. Discounts provided to customers at the point of sale are recognized as reductions in revenue as the products are sold. Rebate amounts are recorded as a reduction of revenue at least quarterly using estimates of customer participation and performance. Freight charges billed to customers are included in net revenues and the related shipping costs are included in cost of revenues in our consolidated statements of operations.

Research and Development ("R&D") – R&D costs are expensed as incurred. Costs incurred for R&D primarily include salaries and benefits and consumable supplies, as well as rent, professional fees, utilities and the depreciation of property and equipment used in R&D activities. R&D costs included in selling, general and administrative expense were \$4.6 million, \$4.8 million and \$4.5 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Share-based Compensation – Share-based compensation is measured at the grant-date fair value. The exercise price of stock option awards and the fair value of restricted share awards are set at the closing price of our common stock on the Nasdaq Global Select Market on the date of grant, which is the date such grants are authorized by our Board of Directors. The fair value of performance-based restricted share awards is determined using a Monte Carlo simulation model incorporating all possible outcomes against a defined peer group. The fair value of share-based payment arrangements is amortized on a straight-line basis to compensation expense over the period in which the restrictions

lapse based on the expected number of shares that will vest. To cover the exercise of options and vesting of restricted shares, we generally issue new shares from our authorized but unissued share pool, although we may instead issue treasury shares in certain circumstances.

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

jurisdictional basis and reflects our ability to utilize these deferred tax assets through a review of past, current and estimated future taxable income in addition to the establishment of viable tax strategies that will result in the utilization of the deferred assets.

We recognize income tax related interest and penalties, if any, as a component of income tax expense.

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

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

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

Earnings Per Share – We use the two-class method of calculating earnings per share, which determines earnings per share for each class of common stock and participating security as if all earnings of the period had been distributed. If the holders of restricted stock awards are entitled to vote and receive dividends during the restriction period, unvested shares of restricted stock qualify as participating securities and, accordingly, are included in the basic computation of earnings per share. Our unvested restricted shares participate on an equal basis with common shares; therefore, there is no difference in undistributed earnings allocated to each participating security. Accordingly, the presentation in Note 10 is prepared on a combined basis and is presented as earnings per common share. Diluted earnings per share is based on the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options.

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

Transactional currency gains and losses arising from transactions in currencies other than our sites’ functional currencies are included in our consolidated statements of operations.

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

Discontinued Operations and Segment Realignment – During the third quarter of the fiscal year ended March 31, 2018, we committed to a plan to divest our Strathmore products business (the "Coatings business"). This determination resulted in the reclassification of the assets and liabilities comprising that business to assets held-for-sale, and a corresponding adjustment to our consolidated statements of operations to reflect discontinued operations for all periods presented.

Additionally, as a result of our decision to divest the Coatings business, we realigned our reportable segments to better align our resources to support our ongoing business strategy. We retained the Industrial Products Segment and combined the non-coatings business lines of our historical Coatings, Sealants & Adhesives Segment into our Specialty Chemicals Segment. The reportable segment realignment is consistent with the manner in which our Chief Operating Decision Maker evaluates performance and makes resource allocation decisions, subsequent to the decision to divest the Coatings business. Historical segment information has been adjusted to reflect the effect of this change. Our segment information is more fully disclosed in Note 18. Historical

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

information also reflects discontinued operations presentation for the portion of our business meeting the held-for-sale criteria as described in Note 3.

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

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

Specialty Chemicals includes pipe thread sealants, firestopping sealants and caulks and adhesives/solvent cements, lubricants and greases, drilling compounds, anti-seize compounds, chemical formulations and degreasers and cleaners. Intersegment sales and transfers are recorded at cost plus a profit margin, with the sales and related margin on such sales eliminated in consolidation. We do not allocate interest expense, interest income or other (expense) income, net to our segments. Our corporate headquarters does not constitute a separate segment. The Eliminations and Other segment information is included to reconcile segment data to the consolidated financial statements and includes assets and expenses primarily related to corporate functions and excess non-operating properties.

Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which has been subsequently amended with additional ASUs including ASU No. 2016-12 and ASU No. 2016-20, issued in May and December 2016, respectively. ASU No. 2014-09, as amended, supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are also expanded disclosure requirements in this ASU. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year. As a result, public entities will apply the new standard for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. In 2017, we identified the relevant revenue streams and documented the procedures and control changes required to address the impacts that ASU 2014-09 may have on our business, as well as trained appropriate personnel on the procedures and controls going into effect April 1, 2018. From the analysis performed, two main revenue streams were identified from contracts with customers: (1) book and ship and (2) long-term contracts. Our revenue recognition methodology does not materially change following the adoption of the new standard as approximately 95% of our annual revenue is derived from book and ship sales. As of March 31, 2018, we have completed our impact assessment for the implementation of the new revenue recognition guidance. In addition, we will elect to apply certain of the permitted practical expedients within the revenue recognition guidance. We will adopt the new guidance effective April 1, 2018 using the modified retrospective approach and will recognize the cumulative effect of initially applying the guidance as an adjustment to opening retained earnings effective April 1, 2018. We have evaluated the impact of this ASU and have estimated the impact to be (\$0.7) million adjustment to opening retained earnings upon adoption.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Subtopic 330): Simplifying the Measurement of Inventory." This ASU simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities will continue to apply their existing impairment models to inventories that are accounted for using LIFO and retail inventory method. This ASU was effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. We adopted the amendments of this

ASU April 1, 2017. The adoption of this ASU did not impact our consolidated financial condition and results of operations.

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

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In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)," which simplifies the accounting for share-based compensation. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. We adopted the amendments within this ASU effective April 1, 2017. The resulting impact was a decrease in additional paid in capital and an increase in retained earnings of \$0.5 million.

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

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

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

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

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The amendments in this ASU should be adopted for

annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU No. 2017-04 will only impact our consolidated financial condition and results of operations to the extent that we incur a future goodwill impairment.

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

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In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted improvements of Accounting for Hedging Activities." The purpose of this ASU is to better align a company's risk management activities and financial reporting for hedging relationships. Additionally, this ASU simplifies the hedge accounting requirements and improves the disclosures of hedging arrangements. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact of ASU No. 2017-12 on our consolidated financial condition and results of operations. On December 22, 2017, the President of the U.S. signed new tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"). The Act significantly changes U.S. income tax law, including reduction of the corporate income tax rate to 21%, creation of a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadening of the tax base and allowing for immediate capital expensing of certain qualified property. It also requires companies to pay minimum taxes on foreign earnings and subjects certain payments from corporations to foreign related parties to additional taxes. ASC 740, "Accounting for Income Taxes," requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. Though certain key aspects of the new law are effective January 1, 2018 and have an immediate accounting effect, other significant provisions are not effective or may not result in accounting effects for March 31 fiscal year companies until April 1, 2018. The Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") 118 to provide guidance for companies that are not able to complete their accounting for the income tax effects of the Act in the period of enactment. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. Companies with fiscal years that end on a date other than December 31 will need to use a blended tax rate as the new rate is administratively effective at the beginning of their fiscal year. We have adopted the provisions of the Act, as it is applicable, in the quarter ended December 31, 2017. The following provisional adjustments have been recorded:

The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of our foreign subsidiaries. To assess the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We are able to make a reasonable estimate of the Transition Tax; however, we are continuing to review additional information regarding our accumulated E&P and non-U.S. income taxes paid to more precisely compute the amount of the Transition Tax. In addition, based on current state tax law, we estimate the state impact of the Transition Tax to be insignificant. This estimate will be revised based on a calculation of our final Transition Tax as well as any updated guidance on state treatment of the deemed repatriation. While we have not yet completed all of the computations necessary or completed a detailed inventory of our expenditures that qualify for immediate expensing, we have recorded a provisional benefit based on our current intent to fully expense all qualifying expenditures.

Because of the complexity of the new Global Intangible Low-Taxed Income ("GILTI") tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into measurement of our deferred taxes (the "deferred method"). Our selection of an accounting policy with respect to the new GILTI tax

rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. We are not currently able to reasonably estimate the effect of the new GILTI tax rules on future U.S. inclusions in taxable income as the expected future impact of this provision of the Tax Act depends on our current structure and business. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI. We anticipate that additional clarification and evaluation of these rules will occur during fiscal year 2019 and, if the GILTI tax rules have an impact to our provision for income taxes, an estimate will be recorded as soon as a reliable estimate can be formed.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. However, because the

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amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU also require certain disclosures about stranded tax effects. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact of ASU No. 2018-02 on our consolidated financial condition and results of operations.

2. ACQUISITIONS**Greco Aluminum Railings**

On February 28, 2017, we acquired the equity of Greco Aluminum Railings (“Greco”), based in Windsor, Ontario, Canada, for \$28.2 million, net of cash acquired, funded through our revolving credit facility. Greco is a leading manufacturer of high-quality engineered railing and safety systems for multi-family and commercial structures in the U.S. and Canada. The excess of the purchase price over the fair value of the identifiable assets acquired was \$13.8 million allocated to goodwill. Goodwill represents the value expected to be obtained from a more extensive portfolio of architecturally-specified building products, which help make buildings safer and more aesthetically pleasing, while enabling compliance with building codes and leveraging our larger distributor network. The preliminary allocation of the fair value of the net assets acquired included customer lists, trademarks, non-compete agreements and a favorable leasehold of \$10.3 million, \$1.0 million, \$0.8 million and \$0.1 million, respectively, as well as property, plant and equipment and inventory of \$0.8 million and \$0.5 million, respectively, net of a deferred tax liability of \$3.4 million. Customer lists, the non-compete agreement and the favorable leasehold are being amortized over 15 years, five years and approximately 9 years (remaining life of the leasehold), respectively, while trademarks and goodwill are not being amortized. Greco activity has been included in our Industrial Products segment since the acquisition date. No pro forma information has been provided due to immateriality.

AC Leak Freeze

On December 16, 2015, we acquired substantially all of the assets of AC Leak Freeze™ (“Leak Freeze”), based in Baltimore, Maryland for \$16.3 million in cash funded by borrowings under CSWI’s Revolving Credit Facility (discussed in Note 8). Leak Freeze is a leading manufacturer of original equipment manufacturer-approved air conditioning and refrigerant leak repair solutions. The excess of the purchase price over the fair value of the identifiable assets acquired was \$5.7 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive specialty chemical product portfolio for the HVAC market and leveraging our larger distributor network. The allocation of the fair value of the assets acquired included customer lists, trademarks and trade names and a non-compete agreement of \$8.1 million, \$1.4 million and \$0.2 million, respectively, as well as inventory in the amount of \$0.7 million. Customer lists and the non-compete agreement are being amortized over 10 years and five years, respectively, while trademarks and trade names and goodwill are not being amortized. Leak Freeze activity has been included in our Specialty Chemicals segment since the acquisition date. No pro forma information has been provided due to immateriality.

Deacon Industries, Inc.

On October 1, 2015, we acquired substantially all of the assets of Deacon Industries, Inc. (“Deacon”), based in Washington, Pennsylvania for \$12.6 million. The acquisition was funded by \$11.0 million of borrowings under a line of credit and \$1.1 million cash on hand. The remaining \$0.5 million of the purchase price represents a payment contingent upon the achievement of certain performance metrics during the fiscal year ended March 31, 2017. This liability was reduced to \$0.0 during the quarter ended December 31, 2016 based on expected achievement of performance metrics. Deacon is a leading manufacturer of high temperature sealants and injectable packings with applications in a variety of industrial end markets, both on an emergency and maintenance basis. The excess of the purchase price over the fair value of the identifiable assets acquired was \$4.1 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more

extensive sealant and injectable packing product portfolio and leveraging our larger distributor network. The allocation of the fair value of the assets acquired included customer lists, know-how, trademarks and trade names and a non-compete agreement of \$2.9 million, \$2.6 million, \$1.1 million, and \$0.1 million, respectively, as well as property, plant, and equipment and inventory in the amounts of \$0.9 million and \$0.5 million, respectively. Customer lists, know-how and the non-compete agreement are being amortized over 15 years, 10 years and five years, respectively, while trademarks and trade names and goodwill are not being amortized. Deacon activity was historically included in our Coatings, Sealants & Adhesives segment since the acquisition date and is now reflected within our Specialty Chemicals segment due to our segment realignment. No pro forma information has been provided due to immateriality.

3. DISCONTINUED OPERATIONS

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During the third quarter of fiscal year ended March 31, 2018, we commenced a process to divest our Coatings business to allow us to focus resources on our core growth platforms. Our Coatings business manufactures specialized industrial coatings products including urethanes, epoxies, acrylics and alkyds. The Coatings business meets the held-for-sale criteria under ASC 360, "Property, Plant and Equipment," and accordingly, we have classified and accounted for the assets and liabilities of the Coatings business as held-for-sale in the accompanying consolidated balance sheets and as discontinued operations, net of tax in the accompanying consolidated statements of operations and cash flows. We estimated that the fair value of the business was less than carrying value, resulting in an estimated \$46.0 million impairment charge recorded during the third quarter of the fiscal year ended March 31, 2018. We completed an initial assessment of the assets and liabilities of the Coatings business and recorded the impairment based on our best estimates as of the date of issuance of financial results for the third quarter of the fiscal year ended March 31, 2018. No adjustments to previously recorded estimates have been made subsequently.

Summarized selected financial information for Strathmore for the fiscal years ended March 31, 2018, 2017 and 2016, is presented in the following table:

| (in thousands) | Fiscal Years Ended March 31, | | |
|----------------------------------------------------------------|------------------------------|-----------|----------|
| | 2018 | 2017 | 2016 |
| Revenues, net | \$23,153 | \$39,624 | \$52,688 |
| Impairment expense | (46,007) | (2,800) | — |
| (Loss) income from discontinued operations before income taxes | (61,164) | (10,616) | 1,253 |
| Income tax benefit | 16,600 | 3,887 | 411 |
| (Loss) income from discontinued operations | \$(44,564) | \$(6,729) | \$1,664 |

The assets and liabilities of discontinued operations are stated separately as of March 31, 2018 and 2017, respectively, in the consolidated balance sheets and are comprised of the following items:

| (in thousands) | Fiscal Years Ended March 31, | |
|-----------------------------------------------|------------------------------------|----------|
| | 2018 | 2017 |
| Assets | | |
| Accounts receivable, net | \$2,259 | \$3,951 |
| Inventories, net | — | 6,736 |
| Prepaid expenses and other current assets (a) | 168 | 1,219 |
| Total current assets | 2,427 | 11,906 |
| Property, plant and equipment, net | — | 7,085 |
| Intangible assets | — | 31,298 |
| Other | — | — |
| Total non-current assets | — | 38,383 |
| Total assets | \$2,427 | \$50,289 |

Liabilities

Accounts payable, accrued and other expenses \$3,966 \$5,184

(a) The assets and liabilities of the Coatings business reside in a disregarded entity for tax purposes. Accordingly, the tax attributes associated with the operations of our Coatings business will ultimately flow through to the corporate parent, which files a consolidated federal return. Therefore, the operating losses and impairment losses attributable

to the Coatings business and any corresponding deferred tax assets or liabilities are expected to be substantially realized by the corporate parent. These amounts have therefore been reflected as assets of our continuing operations and have not been allocated or attributed to the balances of assets or liabilities disclosed above. We continue to evaluate the ultimate realizability of all deferred tax assets, and the specific realization of tax assets pertaining to the Coatings business to be disposed could be impacted by the structure of a future sale transaction or other factors impacting or related to the actual disposition of the Coatings business in future periods. Tax expense has been attributed to discontinued operations and includes an estimate of all relevant tax characteristics pertaining to the disposed Coatings business, including the effects resulting from the enactment of the Tax Cuts and Jobs Act. We will continue to evaluate any potential tax consequences of a potential sale transaction and will disclose or record any corresponding impacts in the period in which the impact can be reliably quantified.

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4. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2018 and 2017 were as follows (in thousands):

| | Industrial Products | Specialty Chemicals | Total |
|-------------------------------------|------------------------|------------------------|----------|
| Balance at March 31, 2016 | \$36,194 | \$ 31,563 | \$67,757 |
| Acquisition of Greco | 13,619 | — | 13,619 |
| Currency translation | (513) | — | (513) |
| Balance at March 31, 2017 | \$49,300 | \$ 31,563 | \$80,863 |
| Purchase price adjustment for Greco | 152 | — | 152 |
| Currency translation | 749 | — | 749 |
| Balance at March 31, 2018 | \$50,201 | \$ 31,563 | \$81,764 |

The following table provides information about our intangible assets for the fiscal years ended March 31, 2018 and 2017 (in thousands, except years):

| | Wtd Avg Life (Years) | March 31, 2018 | | March 31, 2017 | |
|----------------------------------------------------|-------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | | Ending Gross Amount | Accumulated Amortization | Ending Gross Amount | Accumulated Amortization |
| Finite-lived intangible assets: | | | | | |
| Patents (a) | 11 | \$9,489 | \$ (5,564) | \$9,576 | \$ (4,779) |
| Customer lists and amortized trademarks | 12 | 58,161 | (24,812) | 57,421 | (19,523) |
| Non-compete agreements | 5 | 1,713 | (762) | 1,469 | (194) |
| Other | 10 | 5,016 | (1,529) | 4,849 | (828) |
| | | \$74,379 | \$ (32,667) | \$73,315 | \$ (25,324) |
| Trade names and trademarks not being amortized: | | \$11,342 | \$ — | \$11,321 | \$ — |

(a) During the fiscal years ended March 31, 2018 and 2017, we wrote off \$0.0 and \$4.0 million of intangible assets that were fully amortized.

Amortization expense for the fiscal years ended March 31, 2018, 2017 and 2016 was \$7.1 million, \$6.1 million and \$5.2 million, respectively. The following table presents the estimated future amortization of finite-lived intangible assets for the next five fiscal years ending March 31 (in thousands):

| | |
|------|---------|
| 2019 | \$5,766 |
| 2020 | 5,530 |
| 2021 | 4,637 |
| 2022 | 4,463 |
| 2023 | 3,885 |

5. SPIN-OFF EXECUTIVE COMPENSATION

On August 28, 2014, the board of directors of Capital Southwest (our former parent company) adopted an executive compensation plan consisting of grants of nonqualified stock options, restricted stock and cash incentive awards (the "Spin-Off Compensation Plan") to executive officers of Capital Southwest, which included Joseph Armes, our current Chief Executive Officer, and Kelly Tacke, our former Chief Financial Officer. Under the Spin-Off Compensation Plan, certain Capital Southwest executive officers were eligible to receive an amount equal to 6.0% of the aggregate appreciation in Capital Southwest's share price from the adoption of the Spin-Off Compensation Plan to the "trigger event date" (later determined by Capital Southwest's board to be December 29, 2015). The nonqualified stock options

became exercisable and the restricted stock and the cash incentive awards vested ratably in three annual tranches beginning on December 29, 2015.

Effective with the Share Distribution, CSWI entered into an Employee Matters Agreement with Capital Southwest. Under this agreement, Capital Southwest retained the obligation to fund the cash incentive awards granted under the Spin-Off Executive Compensation Plan, and all liabilities with respect to such cash incentive awards remained liabilities of Capital Southwest.

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The final tranche of awards under the Spin-Off Compensation Plan vested on December 29, 2017. As a result, we will not recognize any additional executive compensation expense under the Spin-Off Compensation Plan in any future period. During the fiscal year ended March 31, 2018, we recorded total executive compensation expense for the cash incentive payments of \$0.5 million for Mr. Armes and total stock compensation expense of \$0.3 million. During the fiscal year ended March 31, 2017, we recorded total executive compensation expense for the cash incentive payments of \$1.9 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of \$1.0 million. Within those amounts were \$1.2 million and \$1.0 million of cash incentive and stock compensation expenses, respectively, which were accelerated as a result of the termination of Ms. Tacke's employment with CSWI in June 2016. During the fiscal year ended March 31, 2016, we recorded total executive compensation expense for the cash incentive payments of \$1.3 million for Mr. Armes and Ms. Tacke, and total stock compensation expense of \$0.3 million.

6. SHARE-BASED COMPENSATION

We maintain the shareholder-approved 2015 Equity and Incentive Compensation Plan (the "2015 Plan"), which provides for the issuance of up to 1,230,000 shares of CSWI common stock through the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units or other share-based awards, to employees, officers and non-employee directors, as well as the issuance of conversion awards in connection with the Share Distribution. Additionally, in September 2015, in connection with the Spin-Off Executive Compensation Plan and Share Distribution, we issued 510,447 shares of common stock to adjust outstanding Capital Southwest equity-based awards to represent both Capital Southwest and CSWI equity-based awards. These conversion grants were issued on substantially the same terms and conditions as the prior Capital Southwest equity-based grants. As of March 31, 2018, 929,459 shares were available for issuance under the 2015 Plan.

In connection with the Share Distribution, all stock option and restricted stock awards granted by Capital Southwest, including awards granted under the Spin-Off Compensation Plan discussed in Note 5, were adjusted and each holder of an award received both Capital Southwest and CSWI stock options and restricted stock awards.

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

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

now employed by CSWI.

We recorded share-based compensation as follows for the fiscal years ended March 31, 2018, 2017 and 2016:

| | Fiscal Year Ended March 31, 2018 | | |
|--------------------------------------|-------------------------------------|------------------|----------|
| (in thousands) | Stock Options | Restricted Stock | Total |
| Share-based compensation expense | \$178 | \$ 3,482 | \$3,660 |
| Related income tax benefit | (56) | (1,097) | (1,153) |
| Net share-based compensation expense | \$122 | \$ 2,385 | \$2,507 |

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

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

| | Fiscal Year Ended March 31, 2018 | | | | |
|-------------------------------|----------------------------------|---------------------------------|------------------------------------|--|-----------------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Remaining Contractual Life (Years) | | Aggregate Intrinsic Value (in Millions) |
| Outstanding at April 1, 2017 | 251,635 | \$ 24.44 | | | |
| Exercised | (19,918) | 16.51 | | | |
| Outstanding at March 31, 2018 | 231,717 | \$ 25.12 | 6.2 | | \$ 4.6 |
| Exercisable at March 31, 2018 | 219,767 | \$ 25.14 | 6.2 | | \$ 4.4 |
| | Fiscal Year Ended March 31, 2017 | | | | |
| | Number of Shares | Weighted Average Exercise Price | Remaining Contractual Life (Years) | | Aggregate Intrinsic Value (in Millions) |
| Outstanding at April 1, 2016 | 362,513 | \$ 24.53 | | | |
| Exercised | (85,981) | 25.23 | | | |
| Canceled | (24,897) | 23.11 | | | |
| Outstanding at March 31, 2017 | 251,635 | \$ 24.44 | 6.9 | | \$ 3.1 |
| Exercisable at March 31, 2017 | 170,412 | \$ 24.12 | 6.7 | | \$ 2.1 |

At March 31, 2018, we had an immaterial amount of unrecognized compensation cost related to non-vested stock options that will be amortized into net income over the remaining weighted average vesting period of less than 1.0 year. Other than options granted in conjunction with the Share Distribution to convert existing Capital Southwest options during the fiscal year ended March 31, 2016, no options have been granted. The intrinsic value of options exercised during the fiscal year ended March 31, 2018 was \$0.5 million. Cash received for options exercised during the fiscal year ended March 31, 2018 was \$0.3 million, and the tax benefit received was \$0.2 million. The total fair value of stock options vested during the years ended March 31, 2018, 2017 and 2016 was \$0.2 million, \$0.7 million and \$0.5 million, respectively.

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

| Number of Shares | Weighted Average |
|------------------|------------------|
|------------------|------------------|

| | | Grant Date Fair Value |
|-------------------------------|-----------|--------------------------|
| Outstanding at April 1, 2017 | 209,489 | \$ 28.20 |
| Granted | 122,919 | 46.24 |
| Vested | (89,708) | 23.75 |
| Canceled | (27,681) | 38.53 |
| Outstanding at March 31, 2018 | 215,019 | \$ 37.41 |

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During the restriction period, the holders of restricted shares are entitled to vote and, except for conversion awards issued under the Spin-Off Compensation Plan, receive dividends. At March 31, 2018, we had unrecognized compensation cost related to unvested restricted shares of \$5.2 million, which will be amortized into net income over the remaining weighted average vesting period of 1.9 years. The total fair value of restricted shares vested during the years ended March 31, 2018 and 2017 was \$4.0 million and \$1.8 million, respectively.

Restricted shares granted during the years ended March 31, 2018 and 2017 includes 42,860 and 49,373 shares (at target), respectively, with performance-based vesting provisions, and vesting ranges from 0-200% and 0-100%, respectively, based on pre-defined performance targets with market conditions. Performance-based units do not have the rights to vote or receive cash dividends until vesting. Performance-based restricted shares are earned upon the achievement of performance targets, and are payable in common shares. Compensation expense is recognized over a 36-month cliff vesting period based on the fair market value as determined by a Monte Carlo simulation.

7. DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

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

| | March 31, | |
|---------------------------------------|-----------|----------|
| | 2018 | 2017 |
| Accounts receivable trade | \$62,494 | \$59,299 |
| Other receivables | 1,904 | 1,998 |
| | 64,398 | 61,297 |
| Less: Allowance for doubtful accounts | (1,015) | (1,466) |
| Accounts receivable, net | \$63,383 | \$59,831 |

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

| | March 31, | |
|----------------------------|-----------|----------|
| | 2018 | 2017 |
| Raw materials and supplies | \$21,855 | \$18,960 |
| Work in process | 3,756 | 6,271 |
| Finished goods | 24,561 | 25,535 |
| Total inventories | 50,172 | 50,766 |
| Less: LIFO reserve | (5,511) | (5,295) |
| Less: Obsolescence reserve | (1,687) | (1,806) |
| Inventories, net | \$42,974 | \$43,665 |

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

| | March 31, | |
|----------------------------------------|-----------|-----------|
| | 2018 | 2017 |
| Land and improvements | \$3,365 | \$3,357 |
| Buildings and improvements | 44,341 | 43,705 |
| Plant, office and laboratory equipment | 66,230 | 62,563 |
| Construction in progress | 2,504 | 3,189 |
| | 116,440 | 112,814 |
| Less: Accumulated depreciation | (61,967) | (56,002) |
| Property, plant and equipment, net | \$54,473 | \$56,812 |

Depreciation of property, plant and equipment was \$7.7 million, \$7.5 million and \$6.5 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Of these amounts, cost of revenues includes \$5.6 million, \$5.2 million and \$4.3 million, respectively.

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Other assets consist of the following (in thousands):

| | March 31, | |
|----------------------------------------------------|-----------|----------|
| | 2018 | 2017 |
| Property held for investment (a) | \$8,863 | \$9,208 |
| Deferred income taxes | 7,636 | — |
| Retirement assets in excess of benefit obligations | 3,334 | 2,954 |
| Other | 4,125 | 3,849 |
| Other assets | \$23,958 | \$16,011 |

(a) As of March 31, 2018 and 2017, \$6.2 million and \$6.2 million in assets were held for sale, respectively, in the "Elimination and Other" segment.

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

| | March 31, | |
|---------------------------------------|-----------|----------|
| | 2018 | 2017 |
| Compensation and related benefits | \$12,839 | \$11,668 |
| Rebates and marketing agreements | 2,892 | 2,435 |
| Non-income taxes | 741 | 814 |
| Income taxes payable | 768 | 868 |
| Other accrued expenses | 6,261 | 6,597 |
| Accrued and other current liabilities | \$23,501 | \$22,382 |

Other long-term liabilities consists of the following (in thousands):

| | March 31, | |
|-----------------------------|-----------|----------|
| | 2018 | 2017 |
| Contingent consideration | \$— | \$6,390 |
| Deferred income taxes | 2,360 | 3,090 |
| Other | 2,361 | 3,900 |
| Other long-term liabilities | \$4,721 | \$13,380 |

8. LONG-TERM DEBT

Debt consists of the following (in thousands):

| | March 31, | |
|---------------------------------------------------------------------------|-----------|----------|
| | 2018 | 2017 |
| Revolving Credit Facility, interest rate of 3.13% and 2.23%, respectively | \$12,000 | \$60,625 |
| Whitmore term loan, interest rate of 3.88% and 2.98%, respectively | 12,020 | 12,582 |
| Total debt | 24,020 | 73,207 |
| Less: Current portion | (561) | (561) |
| Long-term debt | \$23,459 | \$72,646 |

Revolving Credit Facility Agreement

On December 11, 2015, we entered into a five-year \$250.0 million revolving credit facility agreement ("Revolving Credit Facility"), with an additional \$50.0 million accordion feature, with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. The agreement was amended on September 15, 2017 to allow for multi-currency borrowing with a \$125.0 million sublimit and to extend the original maturity date to September 15, 2022. The interest rate, financial covenants and all other material provisions of the Amended Credit Agreement were not materially changed by this amendment. Borrowings under this facility bear interest at the prime rate plus 0.25% or the London Interbank Offered Rate ("LIBOR") plus 1.25%, which may be adjusted based on our leverage ratio. We pay a commitment fee of 0.15% for the unutilized portion of the Revolving Credit Facility. Interest and commitment fees are payable at least quarterly and the outstanding principal balance is due at the maturity date. The Revolving Credit

Facility is secured by substantially all of our assets. As of March 31, 2018 and 2017, we had \$12.0 million and \$60.6 million, respectively, in outstanding borrowings under the Revolving Credit Facility, which reduced our borrowing capacity to \$288.0 million and \$239.4 million, respectively, inclusive of the accordion feature. The Revolving Credit Facility

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contains certain customary restrictive covenants, including a requirement to maintain a minimum fixed charge coverage of ratio of 1.25 to 1.00 and a maximum leverage ratio of Funded Debt to EBITDA (as defined in the agreement) of 3.00 to 1.00. Covenant compliance is tested quarterly and we were in compliance with all covenants as of March 31, 2018.

Whitmore Term Loan

As of March 31, 2018, Whitmore Manufacturing, LLC (one of our wholly-owned operating subsidiaries) had a secured term loan outstanding related to a warehouse and corporate office building and the remodel of an existing manufacturing and R&D facility. The term loan matures on July 31, 2029, with payments of \$140,000 due each quarter. Borrowings under the term loan bear interest at a variable annual rate equal to one-month LIBOR plus 2.0%. As of March 31, 2018 and 2017, Whitmore had \$12.0 million and \$12.6 million, respectively, in outstanding borrowings under the term loan. Interest payments under the Whitmore term loan are hedged under an interest rate swap agreement as described in Note 9.

Future Minimum Debt Payments

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

| | |
|------------|----------|
| 2019 | \$561 |
| 2020 | 561 |
| 2021 | 561 |
| 2022 | 561 |
| 2023 | 12,561 |
| Thereafter | 9,215 |
| Total | \$24,020 |

Operating Leases

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

| | |
|------------|----------|
| 2019 | \$2,344 |
| 2020 | 2,106 |
| 2021 | 1,865 |
| 2022 | 876 |
| 2023 | 384 |
| Thereafter | 3,118 |
| Total | \$10,693 |

Rental expense under operating leases was \$2.5 million, \$2.8 million and \$2.2 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

9. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

We enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. As of March 31, 2018 and 2017, we had \$12.0 million and \$43.2 million, respectively, of notional amount in outstanding designated interest rate swaps with third parties. All interest rate swaps are highly effective. At March 31, 2018, the maximum remaining length of any interest rate swap contract in place was approximately 11.3 years.

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

| | | |
|------------------------------------|-----------|-------|
| | March 31, | |
| | 2018 | 2017 |
| Current derivative liabilities | \$88 | \$199 |
| Non-current derivative liabilities | 134 | 420 |

The impact of changes in the fair value of interest rate swaps is included in Note 17.

On June 17, 2016, we entered into a foreign exchange forward contract, not designated as a hedging instrument, to hedge our exposure associated with assets denominated in British pounds. The forward contract was settled on September 29, 2016

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resulting in a net gain of \$0.2 million, which was included in other income (expense), net on our consolidated statement of operations for the year ended March 31, 2017.

Current derivative assets are reported in our consolidated balance sheets in prepaid expenses and other current assets. 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.

10. EARNINGS PER SHARE

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

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share for the fiscal years ended March 31, 2018, 2017 and 2016:

| | Fiscal Years Ended March 31, | | |
|---------------------------------------------------|------------------------------|----------|----------|
| (amounts in thousands, except per share data) | 2018 | 2017 | 2016 |
| Income from continuing operations | \$32,682 | \$17,800 | \$23,807 |
| (Loss) income from discontinued operations | (44,564) | (6,729) | 1,664 |
| Net (loss) income | \$(11,882) | \$11,071 | \$25,471 |
| Weighted average shares: | | | |
| Common stock | 15,671 | 15,555 | 15,443 |
| Participating securities | — | 218 | 182 |
| Denominator for basic earnings per common share | 15,671 | 15,773 | 15,625 |
| Potentially dilutive securities (a) | — | 66 | 50 |
| Denominator for diluted earnings per common share | 15,671 | 15,839 | 15,675 |

Basic earnings (loss) per common share:

| | | | |
|-------------------------|-----------|---------|--------|
| Continuing operations | \$2.09 | \$1.13 | \$1.52 |
| Discontinued operations | (2.85) | (0.43) | 0.11 |
| Net (loss) income | \$(0.76) | \$0.70 | \$1.63 |

Diluted earnings (loss) per common share:

| | | | |
|-------------------------|-----------|---------|--------|
| Continuing operations | \$2.09 | \$1.12 | \$1.52 |
| Discontinued operations | (2.85) | (0.42) | 0.10 |
| Net (loss) income | \$(0.76) | \$0.70 | \$1.62 |

As a result of the net loss for the year ended March 31, 2018, we excluded 180,906 of unvested Restricted Shares (a) from the calculation of diluted EPS due to their anti-dilutive effect. No shares were excluded as being anti-dilutive for the fiscal years ended March 31, 2017 or 2016.

11. SHAREHOLDERS' EQUITY

On November 11, 2016, we announced that our Board of Directors authorized a program to repurchase up to \$35.0 million of our common stock over the next two years. These shares may be repurchased from time to time in the open market or in privately negotiated transactions. Repurchases will be made from time to time at our discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. The program may be limited or terminated at any time at our discretion without notice. During the fiscal year ended March 31, 2018, 26,544 shares were repurchased for an aggregate of \$1.2 million. No shares were

repurchased prior to the fiscal year ended March 31, 2018.

12. FAIR VALUE MEASUREMENTS

The fair value of interest rate swaps discussed in Note 9 are determined using Level II 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

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instruments (i.e., cash and cash equivalents, bank time deposits, accounts receivable, net, accounts payable) approximated their fair values at March 31, 2018 and 2017 due to their short-term nature.

The fair values of acquisition-related contingent payments are estimated using Level III inputs. The contingent payment related to the acquisition of the Deacon assets utilized the weighted average probability method using forecasted sales. The most significant factor in the valuation is projected net revenues resulting from sales of Deacon products. The contingent payment related to the acquisition of assets from SureSeal utilized the weighted average probability method using forecasted sales and gross margin. The most significant factor in the valuation was projected net revenues resulting from sales of SureSeal products.

The following table sets forth the changes in fair value of contingent consideration recognized within the selling, general and administrative expenses of our consolidated statements of operations:

| (in millions) | Deacon | SureSeal | Total |
|-------------------------------------|--------|----------|--------|
| Balance at April 1, 2016 | \$ 0.4 | \$ 5.5 | \$5.9 |
| Change due to accretion | — | 0.7 | 0.7 |
| Change in estimate | (0.4) | 0.2 | (0.2) |
| Balance at March 31, 2017 | \$ — | \$ 6.4 | \$6.4 |
| Change in estimate | — | 0.1 | 0.1 |
| Payment of contingent consideration | — | (6.5) | (6.5) |
| Balance at March 31, 2018 | \$ — | \$ — | \$— |

13. RETIREMENT PLANS

We maintain a frozen qualified defined benefit pension plan (the “Qualified Plan”) that covers certain of our U.S. employees. The Qualified Plan was previously closed to employees hired or re-hired on or after January 1, 2015 and it was also amended to freeze benefit accruals and to modify certain ancillary benefits provided under the Qualified Plan effective as of September 30, 2015. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. A remeasurement was performed at September 30, 2015 to reflect the amendment of the Qualified Plan that froze participation and all future benefit accruals. The freeze of the Qualified Plan as of September 30, 2015 required the immediate recognition of a curtailment gain due to the accelerated recognition of all remaining prior service costs (benefits) and the decrease in the projected benefit obligation. The freeze of the Qualified Plan reduced net periodic pension expense for the remainder of fiscal year 2016 based on the remeasurement. The funding policy of the Qualified Plan is to contribute annual amounts that are currently deductible for federal income tax purposes. No contributions were made during the fiscal years ended March 31, 2018, 2017 or 2016.

During the year ended March 31, 2018, we offered lump sum payments to terminated vested participants, representing approximately 16% of our liability. Approximately 67% of those participants accepted the lump sum offer for an aggregate payment of \$7.3 million.

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

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

paid monthly in advance for the lifetime of the participant.

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

The following are assumptions related to the Plans:

| | March 31, | | |
|----------------------------------------------------|-----------|--------|--------|
| | 2018 | 2017 | 2016 |
| Assumptions used to determine benefit obligations: | | | |
| Discount rate | 3.98 % | 4.23 % | 4.50 % |
| Rate of compensation increases | 3.00 % | 3.00 % | (a) |
| Assumptions used to determine net pension expense: | | | |
| Discount rate | 4.23 % | 4.50 % | 4.25 % |
| Expected return on plan assets | 6.18 % | 6.19 % | 7.00 % |
| Rate of compensation increases | 3.00 % | 3.00 % | (a) |

(a) Rate of compensation increase is no longer relevant to the Qualified Plan or Restoration Plan due to freezing benefit accruals. The rate of compensation increase on the Canadian Plan is 3.0%.

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

Net pension (benefit) expense for the Plans was:

| | March 31, | | |
|------------------------------------------------|-----------|---------|-----------|
| (in thousands) | 2018 | 2017 | 2016 |
| Service cost – benefits earned during the year | \$58 | \$94 | \$2,069 |
| Interest cost on projected benefit obligation | 2,515 | 2,637 | 2,739 |
| Expected return on assets | (3,927) | (3,723) | (3,226) |
| Net amortization and deferral | 30 | 30 | 9 |
| Settlement expense | 339 | — | — |
| Curtailed benefit | — | — | (8,020) |
| Other adjustment | — | (24) | — |
| Net pension (benefit) expense | \$(985) | \$(986) | \$(6,429) |

The estimated prior service costs and the estimated net loss for the Plans that will be amortized from accumulated other comprehensive loss into pension expense in the fiscal year ended March 31, 2019 is \$0 and \$28,000, respectively.

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

| | March 31, | |
|-----------------------------------------|-----------|----------|
| (in thousands) | 2018 | 2017 |
| Benefit obligation at beginning of year | \$61,434 | \$60,561 |
| Service cost | 58 | 94 |
| Interest cost | 2,515 | 2,637 |
| Actuarial loss | (73) | (2,091) |
| Benefits paid | (2,299) | (2,514) |
| Settlements (b) | (7,252) | — |
| Other adjustment (a) | — | 2,815 |
| Currency translation impact | 78 | (68) |
| Benefit obligation at end of year | \$54,461 | \$61,434 |
| Accumulated benefit obligation | \$54,197 | \$61,132 |

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

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(b) Reflects lump-sum payments to terminated vested participants.

The following is a reconciliation of the Plans' assets:

| (in thousands) | March 31, | |
|------------------------------------------------|-----------|----------|
| | 2018 | 2017 |
| Fair value of plan assets at beginning of year | \$62,271 | \$60,878 |
| Actual return on plan assets | 2,704 | 1,523 |
| Benefits paid | (2,193) | (2,420) |
| Company contributions | 80 | 83 |
| Settlements (b) | (7,252) | — |
| Other adjustment (a) | — | 2,263 |
| Currency translation impact | 65 | (56) |
| Fair value of plan assets at end of year | \$55,675 | \$62,271 |

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

(b) Reflects lump-sum payments to terminated vested participants.

We made no contributions to the Qualified Plan in the fiscal year ended March 31, 2018 and do not expect to make any contributions in the fiscal year ending March 31, 2019. We contributed \$0.1 million to the Canadian Plan in the fiscal year ended March 31, 2018 and estimate that our contribution in the fiscal year ending March 31, 2019 will be \$0.1 million.

The following summarizes the net pension asset for the Plans:

| (in thousands) | March 31, | |
|---------------------------|-----------|-----------|
| | 2018 | 2017 |
| Plan assets at fair value | \$55,675 | \$62,271 |
| Benefit obligation | (54,461) | (61,434) |
| Funded status | \$1,214 | \$837 |

The following summarizes amounts recognized in the balance sheets for the Plans:

| (in thousands) | March 31, | |
|------------------------|-----------|----------|
| | 2018 | 2017 |
| Noncurrent assets | \$3,334 | \$2,955 |
| Current liabilities | (103) | (654) |
| Noncurrent liabilities | (2,017) | (1,464) |
| Funded status | \$1,214 | \$837 |

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

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| (in thousands) | March 31, | |
|-----------------------------------------------------------|-----------|-----------|
| | 2018 | 2017 |
| Accumulated other comprehensive loss at beginning of year | \$(1,901) | \$(1,229) |
| Amortization of net loss | 26 | 17 |
| Amortization of prior service credit | (5 |) 3 |
| Settlements (b) | 232 | — |
| Net loss arising during the year | (762 |) (63 |
| Other adjustment (a) | (107 |) (644 |
| Currency translation impact | (13 |) 15 |
| Accumulated other comprehensive loss at end of year | \$(2,530) | \$(1,901) |

(a) For fiscal year ended March 31, 2017, amounts are to recognize an adjustment, net of tax, to accumulated other comprehensive loss associated with the Canadian Plan.

(b) Reflects impact of lump-sum payments to terminated vested participants.

Amounts recorded in accumulated other comprehensive loss consist of:

| (in thousands) | March 31, | |
|--------------------------------------|-----------|-----------|
| | 2018 | 2017 |
| Net prior service cost | \$41 | \$45 |
| Net loss | (2,571 |) (1,946 |
| Accumulated other comprehensive loss | \$(2,530) | \$(1,901) |

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

| Asset category | March 31, | |
|---------------------------|-----------|------|
| | 2018 | 2017 |
| Equity securities | 15 % | 17 % |
| Fixed income securities | 79 % | 78 % |
| Other | 5 % | 4 % |
| Cash and cash equivalents | 1 % | 1 % |
| Total | 100% | 100% |

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

| (in thousands) | March 31, 2018 | | | | March 31, 2017 | | | |
|-----------------------------|----------------|---------------------|----------|------|----------------|---------------------|----------|------|
| | Total | Hierarchical Levels | | | Total | Hierarchical Levels | | |
| Asset category | | I | II | III | | I | II | III |
| Equity securities (a) | \$8,731 | \$264 | \$8,467 | \$ — | \$10,850 | \$333 | \$10,517 | \$ — |
| Fixed income securities (b) | 43,810 | — | 43,810 | — | 48,312 | — | 48,312 | — |
| Other (c) | 2,753 | 424 | 2,329 | — | 2,760 | 493 | 2,267 | — |
| Cash and cash equivalents | 381 | 381 | — | — | 349 | 349 | — | — |
| Total | \$55,675 | \$1,069 | \$54,606 | \$ — | \$62,271 | \$1,175 | \$61,096 | \$ — |

This category includes investment in equity securities of large, medium and small companies and equity

(a) investments in foreign companies. Mutual funds included in this category are valued using the net asset value per unit as of the valuation date.

(b) This category includes investments in investment grade fixed income instruments, primarily U.S. government obligations.

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(c) This category includes investments in commodity linked and real estate funds within the U.S. and investments in funds that invest in a combination of U.S. and non-U.S. equity and Canadian fixed income securities.

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

| | |
|------------|-------|
| 2019 | \$2.6 |
| 2020 | 2.7 |
| 2021 | 2.8 |
| 2022 | 2.9 |
| 2023 | 3.0 |
| Thereafter | 15.9 |

Defined Contribution Plan

Effective October 1, 2015, we began to sponsor a defined contribution plan covering substantially all of our U.S. employees. Employees may contribute to this plan, and these contributions are matched by us up to 6.0% of eligible earnings. Additionally, we contribute 3.0% of eligible earnings to employees regardless of their level of participation in the plan, which is discretionary and subject to adjustment based on profitability. Effective January 1, 2017, the 3.0% discretionary contribution is contributed following the end of the calendar year. Contributions to the defined contribution plan were \$3.6 million and \$3.3 million for the years ended March 31, 2018 and 2017, respectively.

Employee Stock Ownership Plan

We sponsor a qualified, non-leveraged employee stock ownership plan (“ESOP”) in which domestic employees are eligible to participate following the completion of one year of service. The ESOP provides annual discretionary contributions of up to the maximum amount that is deductible under the Internal Revenue Code. Contributions to the ESOP are invested in our common stock. A participant’s interest in contributions to the ESOP fully vests after three years of credited service or upon retirement, permanent disability (each, as defined in the plan document) or death. We recorded total contributions to the ESOP of \$1.6 million, \$2.1 million and \$1.6 million during the fiscal years ended March 31, 2018, 2017 and 2016, respectively, based on performance in the prior fiscal year. During the fiscal year ended March 31, 2018, \$1.5 million was recorded to expense based on performance in the fiscal year ended March 31, 2018 and is expected to be contributed to the ESOP for the during the fiscal year ending March 31, 2019. The ESOP held 0 and 597,434 shares of Capital Southwest common stock as of March 31, 2018 and 2017, respectively. The ESOP held 850,940 and 907,748 shares of CSWI common stock as of March 31, 2018 and 2017, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. INCOME TAXES

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

| | March 31, | | |
|----------------------------|-----------|----------|----------|
| | 2018 | 2017 | 2016 |
| U.S. Federal | \$42,898 | \$29,525 | \$39,727 |
| Foreign | 5,349 | 2,635 | 3,246 |
| Income before income taxes | \$48,247 | \$32,160 | \$42,973 |

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

| For the year ended: | Current | Deferred | Total |
|----------------------------|----------|----------|----------|
| March 31, 2018 | | | |
| U.S. Federal | \$9,083 | \$1,915 | \$10,998 |
| State and local | 3,281 | 398 | 3,679 |
| Foreign | 1,303 | (415) | 888 |
| Provision for income taxes | \$13,667 | \$1,898 | \$15,565 |
| March 31, 2017 | | | |
| U.S. Federal | \$8,313 | \$3,384 | \$11,697 |
| State and local | 1,726 | 417 | 2,143 |
| Foreign | 1,201 | (681) | 520 |
| Provision for income taxes | \$11,240 | \$3,120 | \$14,360 |
| March 31, 2016 | | | |
| U.S. Federal | \$9,560 | \$7,645 | \$17,205 |
| State and local | 1,348 | (127) | 1,221 |
| Foreign | 914 | (174) | 740 |
| Provision for income taxes | \$11,822 | \$7,344 | \$19,166 |

Income tax expense differed from the amounts computed by applying the U.S. federal statutory income tax rate of 31.5% to income from continuing operations before income taxes as a result of the following (in thousands):

| | March 31, | | |
|-------------------------------------------------------|-----------|----------|----------|
| | 2018 | 2017 | 2016 |
| Computed tax expense at statutory rate | \$15,198 | \$11,256 | \$15,041 |
| Increase (reduction) in income taxes resulting from: | | | |
| Uncertain tax positions | 269 | 1,593 | 1,277 |
| State and local income taxes, net of federal benefits | 1,304 | 1,529 | 1,049 |
| Domestic production activity deduction | (1,238) | (545) | (420) |
| Other permanent differences | (520) | 646 | 1,373 |
| Foreign rate differential | (414) | (444) | (642) |
| Impact of reduction of federal tax rate | (1,011) | — | (107) |
| Federal Repatriation Tax, net of tax credit | 1,891 | — | — |
| Other, net | 86 | 325 | 1,595 |
| Provision for income taxes continuing operations | \$15,565 | \$14,360 | \$19,166 |

The effective tax rates for the fiscal years ended March 31, 2018, 2017 and 2016 were 32.3%, 44.7% and 44.6%, respectively. The current year tax rate was lower, compared to the prior years, as a result of a decrease in the federal statutory rate, the release of FIN 48 for state voluntary disclosure agreements and a decrease in state and local income taxes. Other items impacting the

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

effective tax rate include federal repatriation tax under the new U.S. tax reform and an increase in the domestic production activity deduction.

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

| | March 31, | |
|-------------------------------------------------|-----------|-----------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Accrued expenses | \$106 | \$2 |
| Net operating loss carryforwards | 167 | 565 |
| Inventory reserves | 837 | 1,876 |
| Pension and other employee benefits | 863 | 3,289 |
| Accrued compensation | 1,693 | 2,621 |
| Impairment | 10,933 | — |
| Other, net | 883 | 1,485 |
| Deferred tax assets | 15,482 | 9,838 |
| Valuation allowance | (64) | (107) |
| Deferred tax assets, net of valuation allowance | 15,418 | 9,731 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | \$(4,913) | \$(6,719) |
| Goodwill and intangible assets | (4,465) | (5,313) |
| Deferred gain | (461) | (783) |
| Other, net | (303) | (6) |
| Deferred tax liabilities | (10,142) | (12,821) |
| Net deferred tax assets (liabilities) | \$5,276 | \$(3,090) |

As of March 31, 2018 and 2017, we had \$0.2 million and \$0.6 million, respectively, in tax effected net operating loss carryforwards. Net operating loss carryforwards will expire in periods beyond the next 5 years.

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

| | March 31, | |
|-------------------------------------------------|-----------|---------|
| | 2018 | 2017 |
| Balance at beginning of year | \$2,025 | \$900 |
| Increases related to prior year tax positions | 316 | 916 |
| Increases related to current year tax positions | 284 | 730 |
| Settlement | (746) | (521) |
| Balance at end of year | \$1,879 | \$2,025 |

We have accrued interest and penalties on uncertain tax positions of \$0.1 million and \$0.2 million, respectively, for the year ended March 31, 2018 and \$0.2 million and \$0.2 million, respectively, for the years ended March 31, 2017 and 2016. We are currently under examination for the fiscal year ended March 31, 2016 for U.S. federal income taxes. We are not under examination by any U.S. state income taxing authority. Our federal income tax returns for the year ended September 30, 2015 and subsequent years remain subject to examination. Our income tax returns in certain state income tax jurisdictions remain subject to examination for various periods for the year ended September 30, 2015 and subsequent years.

15. RELATED PARTY TRANSACTIONS

We paid \$0.1 million in consulting fees in each of the fiscal years ended March 31, 2018, 2017 and 2016 to a company owned by a member of our board of directors. The consulting agreement under which these fees were paid was terminated effective March 31, 2018.

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We paid \$0.0, \$0.0 and \$0.2 million in management fees for the fiscal years ended March 31, 2018, 2017 and 2016, respectively, to a management company subsidiary of Capital Southwest for services rendered during each respective fiscal year. These amounts are presented in selling, general and administrative expenses in the consolidated statements of operations, and payments ceased in connection with the Share Distribution.

We paid \$0.0, \$0.0 and \$0.3 million in dividends to Capital Southwest during the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Dividends paid in the fiscal year ended March 31, 2016 were paid prior to the Share Distribution, as Capital Southwest was our sole shareholder until the Share Distribution.

As of fiscal year ended March 31, 2018 and 2017, 0 and 597,434 shares, respectively, of Capital Southwest stock were held under our ESOP.

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 are 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 is 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.

16. CONTINGENCIES

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Fiscal Years | |
|-----------------------------------------------------------------------------------------------------------|-----------------|-----------|
| | Ended March 31, | |
| | 2018 | 2017 |
| Currency translation adjustments: | | |
| Balance at beginning of period | \$(8,132) | \$(5,248) |
| Adjustments for foreign currency translation | 3,295 | (2,884) |
| Balance at end of period | \$(4,837) | \$(8,132) |
| Interest rate swaps: | | |
| Balance at beginning of period | \$(402) | \$(1,221) |
| Unrealized gains, net of taxes of \$(67) and \$(261), respectively (a) | 193 | 485 |
| Reclassification of losses included in interest expense, net of taxes of \$(34) and \$(180), respectively | 101 | 334 |
| Other comprehensive income | 294 | 819 |
| Balance at end of period | \$(108) | \$(402) |
| Defined benefit plans: | | |
| Balance at beginning of period | \$(1,901) | \$(1,229) |
| Amortization of net prior service benefit, net of taxes of \$2 and \$(2), respectively (b) | (5) | 3 |
| Amortization of net loss, net of taxes of \$(12) and \$(7), respectively (b) | 26 | 17 |
| Net loss arising during the year, net of taxes of \$347 and \$42, respectively | (762) | (63) |
| Settlement recognition, net of taxes of \$107 and \$0, respectively | 232 | — |
| Other adjustment, net of taxes of \$0 and \$276, respectively (c) | (107) | (644) |
| Currency translation impact | (13) | 15 |
| Other comprehensive loss | (629) | (672) |
| Balance at end of period | \$(2,530) | \$(1,901) |

Unrealized gains are reclassified to earnings as underlying cash interest payments are made. We expect to (a) recognize a loss of less than \$0.1 million, net of deferred taxes, over the next twelve months related to a designated cash flow hedge based on its fair value as of March 31, 2018.

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

The other adjustment as of March 31, 2018, relates to the change in the effective tax rate. The other adjustment for (c) the fiscal year ended March 31, 2017 was to recognize an adjustment, net of tax, to accumulated other comprehensive income associated with the Canadian Plan.

18. SEGMENTS

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

Industrial Products; and
Specialty Chemicals.

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the financial information of our reporting segments reconciled to the amounts reported in the consolidated financial statements (in thousands). Historical segment information has been retrospectively adjusted to reflect the decision to divest the Coatings business.

Year ended March 31, 2018

| | Industrial Products | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|---------------------|---------------------|--------------------------------|------------------------|------------|
| Revenues, net | \$ 186,483 | \$ 139,735 | \$ 326,218 | \$ 4 | \$ 326,222 |
| Operating income | 43,984 | 18,427 | 62,411 | (11,697) | 50,714 |
| Depreciation and amortization | 7,586 | 6,679 | 14,265 | 668 | 14,933 |

Year ended March 31, 2017

| | Industrial Products | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|---------------------|---------------------|--------------------------------|------------------------|------------|
| Revenues, net | \$ 158,654 | \$ 128,714 | \$ 287,368 | \$ 92 | \$ 287,460 |
| Operating income | 32,893 | 13,508 | 46,401 | (13,275) | 33,126 |
| Depreciation and amortization | 6,963 | 6,418 | 13,381 | 373 | 13,754 |

Year ended March 31, 2016

| | Industrial Products | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|-------------------------------|---------------------|---------------------|--------------------------------|------------------------|------------|
| Revenues, net | \$ 138,594 | \$ 128,051 | \$ 266,645 | \$ 272 | \$ 266,917 |
| Operating income | 31,075 | 22,110 | 53,185 | (6,990) | 46,195 |
| Depreciation and amortization | 6,530 | 5,140 | 11,670 | 68 | 11,738 |

During the year ended March 31, 2018, we recorded restructuring charges of \$0.2 million in our Industrial Products segment. As noted in Note 1, the program was complete as of March 31, 2018. During the year ended March 31, 2017, we recorded restructuring charges of \$0.4 million in our Industrial Products segment.

During the year ended March 31, 2016, we recorded pension plan curtailment benefits of \$3.2 million and \$4.8 million in our Industrial Products and Specialty Chemicals segments, respectively.

Total Assets

| | Industrial Products | Specialty Chemicals | Subtotal – Reportable Segments | Eliminations and Other | Total |
|----------------|---------------------|---------------------|--------------------------------|------------------------|------------|
| March 31, 2018 | \$ 170,847 | \$ 143,733 | \$ 314,580 | \$ 26,236 | \$ 340,816 |
| March 31, 2017 | 171,147 | 208,126 | 379,273 | 19,154 | 398,427 |
| March 31, 2016 | 154,583 | 227,166 | 381,749 | 10,922 | 392,671 |

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

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

| | For the Years Ended March 31, | | | | | |
|--------------|-------------------------------|--------|------------|--------|------------|--------|
| | 2018 | | 2017 | | 2016 | |
| U.S. | \$ 268,201 | 82.2 % | \$ 239,657 | 83.4 % | \$ 205,027 | 76.8 % |
| Non-U.S. (a) | 58,021 | 17.8 % | 47,803 | 16.6 % | 61,890 | 23.2 % |

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Revenues, net \$326,222 100.0% \$287,460 100.0% \$266,917 100.0%

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | As of March 31, | | | | | |
|-----------------------|-----------------|--------|-----------|--------|-----------|--------|
| | 2018 | | 2017 | | 2016 | |
| U.S. | \$178,010 | 86.6 % | \$185,472 | 87.1 % | \$180,148 | 93.3 % |
| Non-U.S. | 27,603 | 13.4 % | 27,526 | 12.9 % | 12,990 | 6.7 % |
| Long-lived assets (a) | \$205,613 | 100.0% | \$212,998 | 100.0% | \$193,138 | 100.0% |

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

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

19. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents a summary of the unaudited quarterly data for the fiscal years ended March 31, 2018 and 2017 (amounts in millions, except per share data):

| Quarter | Fiscal Year Ended March 31, | | | |
|---------------------------------------------|-----------------------------|----------|---------|---------|
| | 2018 | | | |
| | 4th | 3rd | 2nd | 1st |
| Revenues, net | \$83.5 | \$69.0 | \$84.4 | \$89.3 |
| Gross profit | 36.1 | 30.2 | 39.7 | 41.9 |
| Income before income taxes | 9.8 | 7.8 | 14.5 | 16.1 |
| Income from continuing operations | 10.6 | 2.6 | 9.2 | 10.3 |
| Loss from discontinued operations | (4.3) | (36.7) | (1.8) | (1.8) |
| Net income (loss) | 6.3 | (34.0) | 7.3 | 8.5 |
| Basic earnings (loss) per common share (a): | | | | |
| Continuing operations | \$0.68 | \$0.17 | \$0.58 | \$0.65 |
| Discontinued operations | (0.28) | (2.34) | (0.12) | (0.12) |
| Net income (loss) | \$0.40 | \$(2.17) | \$0.46 | \$0.53 |

Diluted earnings (loss) per common share (a):

| | | | | |
|-------------------------|---------|----------|---------|---------|
| Continuing operations | \$0.68 | \$0.17 | \$0.57 | \$0.65 |
| Discontinued operations | (0.28) | (2.34) | (0.11) | (0.12) |
| Net income (loss) | \$0.40 | \$(2.17) | \$0.46 | \$0.53 |

| Quarter | Fiscal Year Ended March 31, | | | |
|---------------------------------------------|-----------------------------|---------|---------|---------|
| | 2017 | | | |
| | 4th | 3rd | 2nd | 1st |
| Revenues, net | \$76.4 | \$65.3 | \$70.9 | \$74.9 |
| Gross profit | 30.4 | 27.4 | 34.9 | 36.2 |
| Income before income taxes | 5.8 | 5.0 | 12.5 | 8.9 |
| Income from continuing operations | 3.3 | 1.9 | 7.3 | 5.3 |
| Loss from discontinued operations | (0.5) | (1.5) | (3.5) | (1.2) |
| Net income (loss) | 2.8 | 0.4 | 3.8 | 4.1 |
| Basic earnings (loss) per common share (a): | | | | |
| Continuing operations | \$0.21 | \$0.12 | \$0.47 | \$0.34 |
| Discontinued operations | (0.04) | (0.09) | (0.23) | (0.08) |
| Net income | \$0.17 | \$0.03 | \$0.24 | \$0.26 |

Diluted earnings (loss) per common share (a):

| | | | | |
|-------------------------|---------|---------|---------|---------|
| Continuing operations | \$0.21 | \$0.12 | \$0.47 | \$0.33 |
| Discontinued operations | (0.04) | (0.09) | (0.23) | (0.07) |
| Net income | \$0.17 | \$0.03 | \$0.24 | \$0.26 |

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

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CSW INDUSTRIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant pre-tax adjustments recorded in the quarter ended March 31, 2018 included severance for our chief operating officer (\$0.4 million). Significant pre-tax adjustments recorded in the fourth quarter ended March 31, 2017 included restructuring and realignment (\$3.4 million), implementation costs related to design of our internal controls framework (\$0.5 million), transaction costs incurred related to our acquisition of Greco (\$0.4 million) and trademark impairments (\$0.2 million).

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

None

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Annual Report on Form 10-K ("Annual Report") for the year ended March 31, 2018, our management, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018 as required by Rule 13a-15(b) under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2018.

Management's Report on Internal Control Over Financial Reporting

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Internal control over financial reporting includes policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate.

Under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, our management conducted an assessment of our internal control over financial reporting as of March 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that as of March 31, 2018, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of March 31, 2018, has been audited by Grant Thornton LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

CSW Industrials, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of CSW Industrials, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of March 31, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended March 31, 2018, and our report dated May 30, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

Dallas, Texas

May 30, 2018

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ITEM 9B: OTHER INFORMATION

None

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2018.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2018.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2018.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2018.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the fiscal year ended March 31, 2018.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm 31

CSW Industrials, Inc. Consolidated Financial Statements:

Consolidated Balance Sheets at March 31, 2018 and 2017 33

For each of the three years in the period ended March 31, 2018:

Consolidated Statements of Operations 34

Consolidated Statements of Comprehensive (Loss) Income 34

Consolidated Statements of Equity 35

Consolidated Statements of Cash Flows 36

Notes to Consolidated Financial Statements 39

(2) Financial Statement Schedules

None.

(3) Exhibits

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Exhibit Index

EXHIBIT
NUMBER DESCRIPTION

| | |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on August 16, 2017) |
| 3.2 | Amended and Restated Bylaws of the Company, adopted and effective August 15, 2017 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on August 16, 2017) |
| 10.1 | Tax Matters Agreement dated September 8, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10, filed on September 9, 2015) |
| 10.2 | First Amended and Restated Credit Agreement, dated as of September 15, 2017, by and among CSW Industrials Holdings, Inc., Whitmore Manufacturing, LLC, the other loan parties thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 19, 2017) |
| 10.3 | Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.5 to Amendment No. 3 to the Company's Registration Statement on Form 10, filed on August 28, 2015) |
| 10.4 | Amended and Restated CSW Industrials, Inc. 2015 Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on December 12, 2016) + |
| 10.5 | Employment agreement by and between CSW Industrials, Inc. and Joseph Armes, dated October 1, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.6 | Form of Employee Restricted Stock Award Agreement (time vesting) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.7 | Form of Employee Time Vested Restricted Share Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on February 8, 2018)+ |
| 10.8 | Form of Employee Restricted Stock Award Agreement (performance vesting) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.9 | Form of Employee Time Vested Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on February 8, 2018)+ |
| 10.10 | Form of Employee Performance Share Award Agreement (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K, filed on June 14, 2017) + |
| 10.11 | Form of Non-Employee Director Restricted Stock Award (time vesting) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.12 | Form of Non-Employee Director Time Vested Restricted Share Award Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on February 8, 2018)+ |
| 10.13 | Form of Incentive Stock Option Right Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.14 | Form of Non-Qualified Stock Option Right Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.15 | Form of Restricted Share Award Agreement (replacement award agreement) (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.16 | Form of Non-Qualified Stock Option Right Award Agreement (executive compensation plan – replacement award agreement) (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.17 | Form of Restricted Share Award Agreement (executive compensation plan – replacement award agreement) (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q, filed on February 16, 2016) + |
| 10.18 | |

CSW Industrials, Inc. Executive Change in Control and Severance Benefit Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 12, 2016) +

21.1* List of subsidiaries of the Company

23.1* Consent of Grant Thornton LLP

31.1* Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 32.1** | <u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2** | <u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| * | Filed herewith |
| ** | Furnished herewith |
| + | Management contracts and compensatory plans required to be filed as exhibits to this Annual Report on Form 10-K. |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

Date: May 30, 2018 CSW INDUSTRIALS, INC.

By: /s/ Joseph B. Armes
Joseph B. Armes
Chairman and Chief Executive Officer

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

| Name | Title | Date |
|---------------------------------------------------------|-------------------------------------------------------------------------|--------------|
| /s/ Joseph B. Armes Joseph B. Armes | Chief Executive Officer (Principal Executive Officer) | May 30, 2018 |
| /s/ Gregory W. Branning Gregory W. Branning | Chief Financial Officer (Principal Financial and Accounting Officer) | May 30, 2018 |
| /s/ Michael R. Gambrell Michael R. Gambrell | Director | May 30, 2018 |
| /s/ Terry L. Johnston Terry L. Johnston | Director | May 30, 2018 |
| /s/ Linda A. Livingstone Linda A. Livingstone, Ph.D. | Director | May 30, 2018 |
| /s/ William F. Quinn William F. Quinn | Director | May 30, 2018 |
| /s/ Robert M. Swartz Robert M. Swartz | Director | May 30, 2018 |
| /s/ J. Kent Sweezey J. Kent Sweezey | Director | May 30, 2018 |