

SmartPros Ltd.  
Form 8-K/A  
September 18, 2008

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

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**FORM 8-K/A**

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

Date of Report (Date of earliest event reported): July 3, 2008

SMARTPROS LTD.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation)

001-32300  
(Commission  
File Number)

13-4100476  
(IRS Employer  
Identification No.)

12 Skyline Drive  
Hawthorne, New York  
(Address of Principal Executive Office)

10532  
(Zip Code)

Registrant's telephone number, including area code (914) 345-2620

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**EXPLANATORY NOTE**

This Form 8-K/A amends the Current Report on Form 8-K of SmartPros Ltd. (["SmartPros"]) filed on July 8, 2008 (the ["Report"]) in connection with the consummation of the acquisition by SmartPros of all the issued and outstanding shares of Loscalzo Associates, P.A. (["Associates"]). The purpose of this amendment is to provide the financial statements of the businesses acquired as required by Item 9.01(a) and the pro forma financial information required by Item 9.01(b), which financial statements and information were excluded from the original filing in reliance on Items 9.01(a)(4) and 9.01(b)(2), respectively, of Form 8-K.

**Item 1.01. Entry into a Material Definitive Agreement.**

See disclosure under Item 2.01 below.

**Item 2.01. Completion of Acquisition or Disposition of Assets.**

Incorporated herein by reference to Item 2.01 of the Report.

**Item 9.01. Financial Statements and Exhibits.**

(a) **Financial Statements of Business Acquired.**

Filed herewith are the financial statements of Associates for the requisite periods.

(b) **Pro-forma Financial Information.**

Filed herewith are the proforma combined financial statements of SmartPros and Associates.

(d) Exhibits

**Exhibit**

<b><u>No.</u></b>	<b><u>Description</u></b>
10.1	Stock Purchase Agreement dated as of July 3, 2008.*
23.1	Consent of Holtz Rubenstein Reminick LLP.
99.1	Press Release dated July 7, 2008.*

\* Filed as an exhibit to this Report on July 8, 2008 and incorporated herein by reference.

\* \* \* \* \*

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to its Current Report on Form 8-K originally filed on July 8, 2008 to be signed on its behalf by the undersigned, hereunto duly authorized.

SmartPros Ltd.

Dated: September 17, 2008

By: /s/ Allen S. Greene  
Allen S. Greene,  
Chief Executive Officer

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# LOSCALZO ASSOCIATES, P.A.

## **Financial Statements (unaudited)**

Consolidated Balance Sheet at June 30, 2008

Consolidated Statements of Operations and Retained Earnings for the six months ended June 30, 2008 and 2007

Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007

Notes to Consolidated Financial Statements for the six months ended June 30, 2008 and 2007

## **Financial Statements (audited)**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2007 and 2006

Consolidated Statements of Operations and Retained Earnings for the years ended December 31, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006

Notes to Consolidated Financial Statements for the years ended December 31, 2007 and 2006

## **Pro Forma Condensed Consolidated Financial Statements (unaudited)**

Introduction

Unaudited Pro Forma Condensed Consolidated Balance Sheet at June 30, 2008

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended June 30, 2008 and for the year ended December 31, 2007

Notes to Pro Forma Condensed Consolidated Financial Statements

**LOSCALZO ASSOCIATES, P.A.****Consolidated Balance Sheet (unaudited)**

June 30,

2008

**Assets**

## Current Assets:

Cash and cash equivalents	\$ 241,666
Accounts receivable	760,297
Prepaid expenses and other current assets	47,339
<b>Total Current Assets</b>	<b>1,049,302</b>

Property and Equipment, net	256,425
Deferred tax asset	123,000
<b>Total Assets</b>	<b>\$ 1,428,727</b>

**Liabilities and Stockholder's Equity**

## Current Liabilities:

Accounts payable	\$ 70,032
Accrued expenses	72,231
Deferred tax liability	273,000
<b>Total Current Liabilities</b>	<b>415,263</b>

Minority Interest in Variable Interest Entity	611,742
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## Commitments and Contingencies

## Stockholder's Equity:

Common stock	2,000
Retained Earnings	399,722
<b>Total Stockholder's Equity</b>	<b>401,722</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 1,428,727</b>

See notes to consolidated financial statements (unaudited).

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**LOSCALZO ASSOCIATES, P.A.****Consolidated Statements of Operations and Retained Earnings (unaudited)***Six Months Ended June 30,***2008**

Net Revenues	<b>\$ 981,035</b>	<b>\$</b>
Cost of Revenues	<b>461,453</b>	
Gross Profit	<b>519,582</b>	
Operating Expenses:		
Selling, general and administrative	<b>832,631</b>	
Depreciation and amortization	<b>4,511</b>	
Total Operating Expenses:	<b>837,142</b>	
Operating Loss	<b>(317,560)</b>	
Other Income:		
Interest income	<b>3,442</b>	
Net Loss before Benefit for Income Taxes	<b>(314,118)</b>	
Income Tax Benefit	<b>126,000</b>	
Net Loss before minority interest in variable interest entity	<b>(188,118)</b>	
Income from minority interest in variable interest entity	<b>(1,831)</b>	
Net Loss	<b>(189,949)</b>	
Retained Earnings, beginning of period	<b>589,671</b>	
Retained Earnings, end of period	<b>\$ 399,722</b>	<b>\$</b>

*See notes to consolidated financial statements (unaudited).*

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**LOSCALZO ASSOCIATES, P.A.****Consolidated Statements of Cash Flows (unaudited)***Six months ended June 30,***2008**

2007

Cash Flows from Operating Activities:		
Net Loss	<b>\$ (189,949)</b>	\$ (146,976)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	<b>4,511</b>	5,322
Deferred Tax Benefit	<b>(126,000)</b>	(111,000)
Minority interest in variable interest entity	<b>1,831</b>	6,140
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	<b>143,836</b>	218,283
Prepaid expenses and other current assets	<b>(29,253)</b>	(26,298)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	<b>(62,653)</b>	515,769
Total adjustments	<b>(67,728)</b>	608,216
Net Cash (Used in) Provided by Operating Activities	<b>(257,677)</b>	461,240
Cash Flows from Investing Activities:		
Acquisition of property and equipment	<b>(9,650)</b>	-
Net Cash Used in Investing Activities	<b>(9,650)</b>	-
Cash Flows from Financing Activities:		
Capital contribution to variable interest entity	<b>516,315</b>	-
Repayment of Stockholder Loan	<b>(67,525)</b>	(77,873)
Repayment of line of credit	-	(90,000)
Net Cash Provided by (Used in) Financing Activities	<b>448,790</b>	(167,873)
Net Increase in Cash and Cash Equivalents	<b>181,463</b>	293,367
Cash and Cash Equivalents, beginning of period	<b>60,203</b>	68,914
Cash and Cash Equivalents, end of period	<b>\$ 241,666</b>	\$ 362,281
Supplemental Disclosure:		
Cash paid for interest	<b>\$ -</b>	\$ 496
Cash paid for income taxes	<b>\$ 3,525</b>	\$ 8,225

*See notes to consolidated financial statements (unaudited).*

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# LOSCALZO ASSOCIATES, P.A.

## Notes to Financial Statements

Six Months Ended June 30, 2008 and 2007

### 1. Description of Business and Summary of Significant Accounting Policies

**Nature of operations** - Loscalzo Associates, P.A. (the "Company"), a New Jersey corporation, was organized in 1981 for the purpose of developing and presenting training programs and performing consulting services to the accounting profession. These seminars are presented through state societies of CPAs, accounting firms, associations of accounting firms and corporations.

**Basis of presentation** - The financial statements have been prepared pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), "*Consolidation of Variable Interest Entities*". The consolidated financial statements include the accounts of Loscalzo Associates, P.A., and 130 Monmouth Street LLC. All material intercompany accounts and transactions have been eliminated. Loscalzo Associates, P.A. and 130 Monmouth Street LLC have common ownership.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition** - Revenue for programs that include the delivery of instruction is recognized after delivery of the training program and/or services to the customer. Revenue relating to the sale of only training material is recognized when an order has been received and the manuals are shipped to the customer.

**Cash and cash equivalents** - All highly liquid investments with an original maturity of three months or less are considered cash equivalents. From time to time, the Company invests a portion of its excess cash in money market accounts and funds which are stated at cost which approximates market.

**Concentration of credit risk** - Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. From time to time, the cash balances exceed the federal depository insurance limit of \$100,000. At June 30, 2008, there was \$ 161,732 in excess of FDIC insurance limits. The Company's cash balances are deposited with high quality financial institutions. No single customer represents a significant concentration of sales or receivables.

**Accounts receivable** - Accounts receivable are stated at the amount billed to customers less an allowance for doubtful accounts, as deemed necessary by management. Management establishes an allowance, when deemed necessary, based on its history of past write-offs and collections and current credit conditions. During 2008 and 2007, no allowance for doubtful accounts was established since all accounts were deemed to be collectible.

Accounts receivable are generally considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts will be written off as uncollectible if no payments are made after 180 days.

**Shipping and handling costs** - The Company includes shipping and handling costs billed to the customer in gross revenue and the related cost of shipping and handling in cost of revenues.

**Property and equipment** - Property and equipment is stated at cost and are depreciated using accelerated depreciation methods over their estimated useful lives, ranging from five to ten years. Accelerated methods established under federal income tax laws differ from generally accepted accounting principles; however, such differences are not considered material. The building is being depreciated over its estimated useful life of 40 years. Leasehold improvements are amortized on the straight-line method over the lesser of their





## LOSCALZO ASSOCIATES, P.A.

### Notes to Financial Statements

Six Months Ended June 30, 2008 and 2007

estimated useful lives or the life of the lease. Expenditures for repairs and maintenance are charged to expense as incurred.

**Income taxes** - The Company prepares its tax returns on a cash basis. Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax laws. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur.

**Advertising** - The Company expenses the costs of advertising when the advertising first takes place. Advertising expense was \$1,757 and \$10,393 for the six months ended June 30, 2008 and 2007.

**Sales tax** - The Company collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the applicable taxing authority for amounts collected but not yet remitted.

**New accounting pronouncements** - In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company believes that this pronouncement will not have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, "*Business Combinations*", which changes how business acquisitions are accounted. SFAS No. 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. SFAS No. 141R is effective for business combinations occurring after December 15, 2008. The Company believes that this pronouncement will not have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*", which establishes new standards governing the accounting for and reporting of noncontrolling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective beginning January 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods



**LOSCALZO ASSOCIATES, P.A.****Notes to Financial Statements**

Six Months Ended June 30, 2008 and 2007

presented. The Company believes that this pronouncement will not have a material effect on the consolidated financial statements

**2. Property and Equipment**

The components of property and equipment are as follows:

<i>June 30,</i>	<b>2008</b>
Land and Building	<b>\$ 342,654</b>
Leasehold Improvements	<b>9,650</b>
Automobiles	<b>32,827</b>
Equipment	<b>73,137</b>
Furniture and Fixtures	<b>5,250</b>
	<b>463,518</b>
Less Accumulated Depreciation and Amortization	<b>207,093</b>
	<b>\$ 256,425</b>

Depreciation and amortization expense for the six months ended June 30, 2008 and 2007 were \$4,511 and \$5,322, respectively.

**3. Related Party Transactions**

The Company is leasing its office building from an affiliate company under a five year lease agreement. The Company pays monthly rent of \$5,000 to the affiliate. It also pays repairs and maintenance and operating costs related to the facility. Under FASB Interpretation 46(R), "*Consolidation of Variable Interest Entities*", the Company has consolidated the financial statements of 130 Monmouth Street LLC since it provides the majority of financial support. Selected information of 130 Monmouth Street LLC's balance sheet, as of June 30, 2008 and 2007, and its results of operations for the six months ended June 30, 2008 and 2007 are as follows:

	<b>2008</b>	2007
Total Assets	<b>\$ 611,742</b>	<b>\$ 608,008</b>
Total Liabilities	<b>-</b>	<b>520,000</b>
Members' Equity	<b>611,742</b>	<b>88,008</b>
Net Revenue	<b>30,000</b>	<b>30,000</b>
Net Income	<b>1,831</b>	<b>6,140</b>

From time to time, the Company borrows funds from the Company's sole stockholder. The loans are non-interest bearing demand obligations. At June 30, 2008 and 2007, the Company did not have any amounts outstanding relating to stockholder loans. The Company repaid loans outstanding during the six month period of \$67,525 and \$77,873 on January 2008 and February 2007 respectively.

The Company advances funds to the sole stockholder on a short term basis. These advances are non-interest bearing and are paid off within the year.

For the six months ended June 30, 2008 and 2007, the Company paid approximately \$41,700 and \$26,800, respectively, for training and consulting services performed by a related party.



**LOSCALZO ASSOCIATES, P.A.****Notes to Financial Statements***Six Months Ended June 30, 2008 and 2007***4. Credit Line**

The Company had an available credit line of \$100,000, which was cancelled on June 30, 2008.

**5. Pension Plan**

The Company has a non-contributory defined contribution plan covering all employees. Contributions are made at the discretion of the Company. The Company had elected not to make a contribution for 2008.

**6. Credit Line**

Income tax benefit for the six months ended June 30, 2008 and 2007 consist of the following:

	2008	2007
Current:		
Federal	\$ -	\$ -
State	-	-
	-	-
Deferred:		
Federal	(107,000)	(94,000)
State	(19,000)	(17,000)
	(126,000)	(111,000)
	\$ (126,000)	\$ (111,000)

The Company has a net deferred tax liability of \$273,000 and a non-current deferred tax asset of \$123,000 as at June 30, 2008. The Company prepares its tax returns on a cash basis, but maintains its books on an accrual basis. As a result of the differences between these methods, timing differences occur between accounts receivables and payables, sale recorded for tax purposes but not on books and basis differences in certain investments, gives rise to a deferred tax liability. 130 Monmouth Street LLC files a separate tax return and income or losses from the entity passes through to its members. Therefore, no provision for taxes on its income has been included in the consolidated financial statements.

**7. Stockholder's Equity**

The Company has 1,000 shares of no par common stock authorized, of which 100 shares are issued and outstanding.

**8. Subsequent Event**

In July 2008, the Company was sold to SmartPros, Ltd., a public company whose stock is listed on NASDAQ (symbol SPRO) for approximately \$4,400,000 in cash.

## **Report of Independent Registered Public Accounting Firm**

Board of Directors  
Loscalzo Associates, P.A.  
Red Bank, New Jersey

We have audited the accompanying consolidated balance sheets of Loscalzo Associates, P.A. (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations and retained earnings and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Loscalzo Associates, P.A. as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubesntein Reminick LLP  
Melville, New York  
September 9, 2008

**LOSCALZO ASSOCIATES, P.A.****Consolidated Balance Sheets**

December 31,

**2007**

2006

**Assets**

## Current Assets:

Cash and cash equivalents	\$ 60,203	\$ 68,914
Accounts receivable	904,133	912,064
Prepaid expenses and other current assets	17,146	3,441
<b>Total Current Assets</b>	<b>981,482</b>	984,419

Property and Equipment, net	251,286	252,074
Deferred Tax Asset	47,000	32,000
Other Assets	940	940
	<b>299,226</b>	285,014
<b>Total Assets</b>	<b>\$ 1,280,708</b>	\$ 1,269,433

**Liabilities and Stockholder's Equity**

## Current Liabilities:

Credit line	\$ -	\$ 90,000
Accounts payable	95,358	64,456
Accrued expenses	109,558	103,638
Deferred tax liability	323,000	324,000
Stockholder loan	67,525	19,373
<b>Total Current Liabilities</b>	<b>595,441</b>	601,467

Minority Interest in Variable Interest Entity	93,596	81,867
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## Commitments and Contingencies

## Stockholder's Equity:

Common stock	2,000	2,000
Retained Earnings	589,671	584,099
<b>Total Stockholder's Equity</b>	<b>591,671</b>	586,099
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 1,280,708</b>	\$ 1,269,433

See notes to consolidated financial statements.

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**LOSCALZO ASSOCIATES, P.A.****Consolidated Statements of Operations and Retained Earnings***Years Ended December 31,*

	<b>2007</b>	2006	
Net Revenues	<b>\$ 3,437,175</b>	\$ 2,958,251	
Cost of Revenues	<b>1,415,915</b>	1,288,576	
Gross Profit	<b>2,021,260</b>	1,669,675	
Operating Expenses:			
Selling, general and administrative	<b>1,985,109</b>	1,707,633	
Depreciation and amortization	<b>9,450</b>	8,355	
Total Operating Expenses	<b>1,994,559</b>	1,715,988	
Net Income (Loss) before Income Tax Expense (Benefit)	>	79,545	
Operating income	28,784	36,408	78
Interest expense	3,654	3,743	11
Net (gain) loss on sale of property, plant and equipment and insurance proceeds	(57)	) (16	) 20
Other (income) expense - net	(759)	) (27	) (9
Income before income taxes	25,946	32,708	67
Income tax expense	7,695	9,161	18
Net income	\$ 18,251	\$ 23,547	\$4
Earnings per common share			
Basic earnings per share	\$ 0.70	\$ 0.91	\$
Diluted earnings per share	\$ 0.70	\$ 0.91	\$

The accompanying notes are an integral part of the condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended	
	11/30/2016	11/30/2015	11/30/2016	11/30/2015
	(In thousands)			
	(Unaudited)			
Net income	\$18,251	\$ 23,547	\$49,337	\$ 60,714
Other comprehensive loss:				
Foreign currency translation adjustments				
Unrealized translation losses	(2,918 )	(1,492 )	(235 )	(6,652 )
Interest rate swap, net of income tax of \$7, \$7, \$22, and \$22, respectively.	(14 )	(14 )	(41 )	(41 )
Other comprehensive loss	(2,932 )	(1,506 )	(276 )	(6,693 )
Comprehensive income	\$15,319	\$ 22,041	\$49,061	\$ 54,021

The accompanying notes are an integral part of the condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	11/30/2014	11/30/2015
	(In thousands)	
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$49,337	\$ 60,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for doubtful accounts	18	(1,045 )
Amortization and depreciation	37,964	35,077
Deferred income taxes	(331 )	(32 )
Net loss on disposition of property, plant & equipment due to realignment	6,602	464
Net (gain) loss on sale of property, plant & equipment and insurance proceeds	26	(465 )
Amortization of deferred borrowing costs	952	1,015
Share-based compensation expense	4,408	3,493
Effects of changes in assets & liabilities:		
Accounts receivable	(33,706 )	(3,209 )
Inventories	(20,760 )	(7,872 )
Prepaid expenses and other	(1,554 )	(935 )
Other assets	(2,451 )	(420 )
Net change in billings related to costs and estimated earnings on uncompleted contracts	8,853	(3,056 )
Accounts payable	7,588	15,835
Other accrued liabilities and income taxes payable	329	4,594
Net cash provided by operating activities	57,275	104,158
Cash Flows From Investing Activities:		
Proceeds from sale or insurance settlement of property, plant, and equipment	543	1,111
Purchase of property, plant and equipment	(29,135 )	(32,161 )
Acquisition of subsidiaries, net of cash acquired	(22,679 )	(49,818 )
Net cash used in investing activities	(51,271 )	(80,868 )
Cash Flows From Financing Activities:		
Excess tax benefits from share-based compensation	—	496
Proceeds from revolving loan	150,000	112,481
Payments on revolving loan	(144,000)	(108,561 )
Payments on long term debt	(20,848 )	(19,911 )
Purchases of treasury shares	(5,282 )	—
Payments of dividends	(12,216 )	(11,606 )
Net cash used in financing activities	(32,346 )	(27,101 )
Effect of exchange rate changes on cash	(370 )	(1,118 )
Net decrease in cash & cash equivalents	(26,712 )	(4,929 )
Cash & cash equivalents at beginning of period	40,191	22,527
Cash & cash equivalents at end of period	\$ 13,479	\$ 17,598
Supplemental disclosures		
Cash paid for interest	\$9,291	\$ 9,942
Cash paid for income taxes	\$ 17,768	\$ 15,638

The accompanying notes are an integral part of the condensed consolidated financial statements.

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## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(unaudited)

	Common Stock	Capital		Retained	Accumulated	Treasury	Total
	Shares	Amount	in Excess of Par Value	Earnings	Other Comprehensive Income (Loss)	Stock	
Balance at February 29, 2016	25,874	\$25,874	\$35,148	\$450,754	\$ (30,560 )	\$—	\$481,216
Stock compensation	13	13	4,395	—	—	—	4,408
Restricted stock units	25	25	(598 )	—	—	—	(573 )
Stock issued for SARs	71	71	(295 )	—	—	—	(224 )
Employee stock purchase plan	71	71	2,843	—	—	—	2,914
Purchase of treasury shares	—	—	—	—	—	(5,282 )	(5,282 )
Cash dividends paid	—	—	—	(12,216 )	—	—	(12,216 )
Net income	—	—	—	49,337	—	—	49,337
Foreign currency translation	—	—	—	—	(235 )	—	(235 )
Interest rate swap, net of \$22 income tax	—	—	—	—	(41 )	—	(41 )
Balance at November 30, 2016	26,054	\$26,054	\$41,493	\$487,875	\$ (30,836 )	\$(5,282)	\$519,304

The accompanying notes are an integral part of the condensed consolidated financial statements.

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AZZ Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

AZZ Inc. ("AZZ", the "Company", "our" or "we") was established in 1956 and incorporated under the laws of the State of Texas. We are a global provider of galvanizing services, welding solutions, specialty electrical equipment and highly engineered services to the power generation, transmission, distribution, refining and industrial markets. We have two distinct operating segments: the Energy Segment and Galvanizing Segment. AZZ Galvanizing is a leading provider of metal finishing solutions for corrosion protection, including hot dip galvanizing to the North American steel fabrication industry. AZZ Energy is dedicated to delivering safe and reliable transmission of power from generation sources to end customers, and automated weld overlay solutions for corrosion and erosion mitigation to critical infrastructure in the energy markets worldwide.

Presentation

The accompanying condensed consolidated balance sheet as of February 29, 2016, which was derived from audited financial statements, and the unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 29, 2016, included in the Company's Annual Report on Form 10-K covering such period.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year ended February 28, 2017 is referred to as fiscal 2017.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which are necessary to present fairly the financial position of the Company as of November 30, 2016, the results of its operations for the three and nine months ended November 30, 2016 and 2015, and cash flows for the nine months ended November 30, 2016 and 2015. These interim results are not necessarily indicative of results for a full year.

Accounting Standards Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendment in this ASU affects all organizations that issue share-based payment awards to employees and is intended to simplify several aspects of the accounting for these awards, including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and allowing an accounting policy election to account for forfeitures as they occur. As permitted by ASU 2016-09, the Company elected to early adopt ASU 2016-09 in the quarter ended August 31, 2016 with an effective date of March 1, 2016. As a result of the adoption, a tax benefit of \$1.3 million was recorded in the quarter ended August 31, 2016. The tax benefit was driven primarily by the exercise, during the first six months of fiscal 2017, of share-based awards issued prior to FY2014. The adoption was on a prospective basis and therefore had no impact on prior years.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Previously, debt issuance costs were recognized as deferred charges and recorded as other assets. In August 2015, the FASB issued ASU 2015-15, "Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements."

ASU 2015-15 allows an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted and is to be implemented retrospectively. Effective March 1, 2016, we adopted these standards which required the retroactive application and represented a change in accounting principle. The unamortized debt issuance costs of approximately \$1.4 million associated with a portion of

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our outstanding debt, which were previously presented as a component of intangibles and other assets on the consolidated balance sheets, are reflected as a reduction to the carrying liability of our outstanding debt. Debt issuance costs associated with our revolving line of credit remain classified in intangibles and other assets and continue to be charged to interest expense over the term of the agreement. As a result of this change in accounting principal, the consolidated balance sheet as of February 29, 2016 was adjusted as follows:

	February 29, 2016	
	Effect of	
	Previously	Adoption of As
	Reported	Accounting Adjusted
	Principle	
	(in thousands)	
Assets:		
Intangibles and other assets	\$ 155,177	\$ (1,361 ) \$ 153,816
Total assets	\$ 983,371	\$ (1,361 ) \$ 982,010
Liabilities:		
Debt due after one year	\$ 303,790	\$ (1,361 ) \$ 302,429
Total liabilities	\$ 502,155	\$ (1,361 ) \$ 500,794

## New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases." The standard requires a lessee to recognize a liability to make lease payments and a right-of-use asset representing a right to use the underlying asset for the lease term on the balance sheet. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", issued as a new Topic, Accounting Standards Codification (ASC) Topic 606 ("ASU 2014-09"). The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The premise of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 can be adopted by the Company either retrospectively or as a cumulative-effect adjustment as of the date of adoption. On April 1, 2015, the FASB decided to defer the effective date of the new revenue standard by one year. As a result, public entities would apply the new revenue standard to annual reporting periods beginning after December 15, 2017. This standard will be effective for the Company beginning in fiscal 2019. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

## 2. Earnings Per Share

Earnings per share is based on the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of stock awards.

The following table sets forth the computation of basic and diluted earnings per share:

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	Three Months ended November 30, 2016 (Unaudited)		Nine Months Ended November 30, 2016 2015	
	(In thousands except per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	\$18,251	\$23,547	\$49,337	\$60,714
Denominator:				
Denominator for basic earnings per common share—weighted average shares	26,005	25,823	25,974	25,787
Effect of dilutive securities:				
Employee and director stock awards	128	154	130	133
Denominator for diluted earnings per common share	26,133	25,977	26,104	25,920
Earnings per share basic and diluted:				
Basic earnings per common share	\$0.70	\$0.91	\$1.90	\$2.35
Diluted earnings per common share	\$0.70	\$0.91	\$1.89	\$2.34

### 3. Share-based Compensation

The Company has one share-based compensation plan, the 2014 Long Term Incentive Plan (the “Plan”). The purpose of the Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees, directors and advisors various types of restricted stock unit awards, performance share units, stock options, and stock appreciation rights to purchase common stock of the Company. The maximum number of shares that may be issued under the Plan is 1,500,000 shares. As of November 30, 2016 the Company has approximately 1,280,249 shares available for future issuance under the Plan.

#### Restricted Stock Unit Awards

Restricted stock unit awards are valued at the market price of our common stock on the grant date. Awards issued prior to fiscal 2015 generally have a three year cliff vesting schedule and awards issued subsequent to fiscal 2015 generally vest ratably over a period of three years but these awards may vest early in accordance with the Plan’s accelerated vesting provisions.

The activity of our non-vested restricted stock unit awards for the nine month period ended November 30, 2016 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 29, 2016	98,693	\$ 45.03
Granted	73,585	56.65
Vested	(35,324)	45.70
Forfeited	—	—
Non-Vested Balance as of November 30, 2016	136,954	\$ 51.10

#### Performance Share Unit Awards

Performance share unit awards are valued at the market price of our common stock on the grant date. These awards have a three year performance cycle and will vest and become payable, if at all, on the third anniversary of the award date. The awards are subject to the Company’s degree of achievement of a target annual average adjusted return on assets during these three year periods. In addition, a multiplier may be applied to the total awards granted which is based on the Company’s total shareholder return during such three year period in comparison to a defined specific



industry peer group as set forth in the plan. The activity of our non-vested performance share unit awards for the nine month period ended November 30, 2016 is as follows:

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	Performance Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 29, 2016	27,415	\$ 46.65
Granted	24,011	57.47
Vested	—	—
Forfeited	—	—
Non-Vested Balance as of November 30, 2016	51,426	\$ 51.70

**Stock Appreciation Rights**

Stock appreciation rights are granted with an exercise price equal to the market value of our common stock on the date of grant. These awards generally have a contractual term of 7 years and vest ratably over a period of three years although some may vest immediately on issuance. These awards are valued using the Black-Scholes option pricing model.

A summary of the Company's stock appreciation rights activity for the nine month period ended November 30, 2016 is as follows:

	SAR's	Weighted Average Exercise Price
Outstanding as of February 29, 2016	312,748	\$ 34.23
Granted	—	—
Exercised	(128,427)	25.71
Forfeited	—	—
Outstanding as of November 30, 2016	184,321	\$ 40.16
Exercisable as of November 30, 2016	143,371	\$ 39.00

The average remaining contractual term for those stock appreciation rights outstanding at November 30, 2016 is 3.52 years, with an aggregate intrinsic value of \$4.6 million. The average remaining contractual terms for those stock appreciation rights that are exercisable as of November 30, 2016 is 3.33 years, with an aggregate intrinsic value of \$3.7 million.

**Employee Stock Purchase Plan**

The Company also has an employee stock purchase plan, which allows employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under this plan have a duration of 24 months (the "offering period"). On the first day of an offering period (the "enrollment date") the participant is granted the option to purchase shares on each exercise date at the lower of 85% of the market value of a share of our common stock on the enrollment date or the exercise date. The participant's right to purchase common stock under the plan is restricted to no more than \$25,000 per calendar year and the participant may not purchase more than 5,000 shares during any offering period. Participants may terminate their interest in a given offering or a given exercise period by withdrawing all of their accumulated payroll deductions at any time prior to the end of the offering period. The fair value of the estimated number of shares to be issued under each offering is determined using the Black-Scholes option pricing model. For the nine month period ended November 30, 2016, the Company issued 70,937 shares under the Employee Stock Purchase Plan.

Share-based compensation expense and related income tax benefits related to all the plans listed above were as follows:

Nine months ended November 30,	2016	2015
	(In thousands)	
	(Unaudited)	

Compensation Expense	\$4,408	\$3,493
Income tax benefits	\$1,411	\$1,223

Unrecognized compensation cost related to restricted stock units, performance share unit awards, stock appreciation rights, and the employee stock purchase plan at November 30, 2016 totals \$8.0 million.

The Company's policy is to issue shares required under these plans from the Company's treasury shares or from the Company's authorized but unissued shares. As of November 30, 2016, the Company has repurchased 100,000 shares at an

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average price of \$52.82 per share under the Company's share repurchase program. For more information on the Company's requirements for the share repurchase program, see Part II, Item 2.

## 4. Segments

Information regarding operations and assets by segment was as follows:

	Three Months Ended November 30, 2016		Nine Months Ended November 30, 2015	
	2016	2015	2016	2015
	(Unaudited)			
	(In thousands)			
Net Sales:				
Energy	\$ 135,553	\$ 136,007	\$ 371,256	\$ 383,787
Galvanizing	91,906	106,440	293,915	301,794
Total net sales	227,459	242,447	665,171	685,581
Operating Income:				
Energy	15,434	18,846	42,383	45,807
Galvanizing	21,345	24,264	60,679	71,689
Corporate	(7,995)	(6,702)	(24,880)	(21,784)
Total operating income	28,784	36,408	78,182	95,712
Interest expense	3,654	3,743	11,159	11,612
Net (gain) loss on sale of property, plant and equipment and insurance proceeds	(57)	(16)	26	(465)
Other (income) expense, net	(759)	(27)	(949)	828
Income before income taxes	\$25,946	\$32,708	\$ 67,946	\$ 83,737
Total Assets:				
Energy	\$577,328	\$539,193	\$ 577,328	\$ 539,193
Galvanizing	421,991	432,297	421,991	432,297
Corporate	18,356	19,462	18,356	19,462
	\$1,017,675	\$990,952	\$ 1,017,675	\$ 990,952

## Financial Information About Geographical Areas

Below is a breakdown of selected financial information by geographical area:

	Three Months Ended November 30, 2016		Nine Months Ended November 30, 2015	
	2016	2015	2016	2015
	(Unaudited)			
	(In thousands)			
Net Sales:				
U.S.	\$ 191,526	\$ 197,372	\$ 537,084	\$ 543,306
International	35,933	45,424	128,243	142,970
Eliminations	—	(349)	(156)	(695)
Total Net Sales	\$227,459	\$242,447	\$ 665,171	\$ 685,581

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	November 30, 2016	February 29, 2016
	(In thousands)	
	(Unaudited)	
Property, Plant and Equipment, Net:		
U.S.	\$200,943	\$204,587
Canada	17,774	17,868
Other Countries	5,375	3,878
Total Property, Plant and Equipment, Net	\$224,092	\$226,333

## 5. Warranty Reserves

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and makes adjustments accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following table shows changes in the warranty reserves since the end of fiscal 2016:

	Warranty Reserve (unaudited) (in thousands)
Balance at February 29, 2016	\$ 2,915
Warranty costs incurred	(1,465 )
Additions charged to income	1,246
Balance at November 30, 2016	\$ 2,696

## 6. Debt

Our debt consisted of the following:

	As of November 2016	February 29, 2016
	(In thousands)	
	(Unaudited)	
Senior Notes, due in balloon payment in January 2021	\$125,000	\$125,000
Senior Notes, due in annual installments of \$14,286 beginning in March 2012 through March 2018	28,571	42,857
Term Note, due in quarterly installments beginning in June 2013 through March 2018	51,563	58,125
Revolving line of credit with bank	107,000	101,000
Total debt	312,134	326,982
Unamortized debt issuance costs for Senior Notes and Term Note	(980 )	(1,361 )
Total debt, net	311,154	325,621
Less amount due within one year	(18,973 )	(23,192 )
Debt due after one year, net	\$292,181	\$302,429



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## 7. Realignment Costs

As part of its ongoing efforts to optimize cost and effectiveness, during the second quarter of fiscal 2017, the Company undertook a review of its operations in order to optimize financial performance of its operating assets. As a result, the Company recognized \$8.0 million of realignment charges in the second quarter of fiscal 2017. A total of \$6.7 million was included in Cost of Sales for the disposition and write off of certain fixed assets within the Galvanizing Segment, including the cost of closing two plants, the write off of certain assets related to the conversion of a third plant from a standard galvanizing plant to a galvanized rebar plant, and the cost of writing off certain other functionally obsolete assets across other galvanizing plants during the second quarter. We also reserved \$1.3 million in Selling, General and Administrative Expense for realignment costs related to one-time employee severance associated with changes needed to improve management efficiency in the Energy and Galvanizing Segments. The following table shows changes in the realignment accrual for the nine months ended November 30, 2016:

	Realignment Accrual (unaudited) (in thousands)
Realignment reserve balance as of February 29, 2016	\$ 61
Additions to reserve	1,260
Realignment costs utilized	(890 )
Realignment reserve balance as of November 30, 2016	\$ 431

## 8. Acquisitions and Divestitures

On March 1, 2016, we completed an acquisition of the equity securities of Power Electronics, Inc. ("PEI"), a Millington, Maryland-based manufacturer and integrator of electrical enclosure systems. The acquisition of PEI will enhance our capacity to serve existing and new customers in a diverse set of industries along the Eastern seaboard of the United States.

Unaudited pro forma results of operations assuming the PEI acquisition had taken place at the beginning of each period are not provided because the historical operating results of PEI were not significant and pro forma results would not be significantly different from reported results for the periods presented.

On October 3, 2016, AZZ entered into an agreement to divest its indirectly held subsidiary, Nuclear Logistics LLC ("NL") to Westinghouse Electric Company, LLC ("Westinghouse") in exchange for cash. Terms of the transaction were not disclosed, and are subject to customary terms and conditions. As of November 30, 2016 and through the date of this report, negotiations for the divestiture were still underway and a close date could not be determined. In addition, management has the intention to withdraw the plan to divest NLI if the current transaction is not completed, and to continue current operations. As a result of the ongoing negotiations between AZZ and Westinghouse and management's overall plan for the subsidiary, the Company determined it had not met the criteria set forth under ASC 360-10-45-9, initial criteria for classification as held for sale, as of November 30, 2016, therefore a reclassification on the balance sheet was not made.

## 9. Subsequent Events

None.

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

**FORWARD LOOKING STATEMENTS**

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the political stability and economic conditions of the various markets that AZZ serves, foreign and domestic, customer requested delays of shipments, acquisition opportunities, currency exchange rates, adequacy of financing, and availability of experienced management and employees to implement AZZ's continued growth strategy; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the continuing economic volatility in the U.S. and other markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. AZZ has provided additional information regarding risks associated with the business in AZZ's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and other filings with the SEC, available for viewing on AZZ's website at [www.azz.com](http://www.azz.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

The following discussion should be read in conjunction with management's discussion and analysis contained in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016, and with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

**RESULTS OF OPERATIONS**

We have two distinct operating segments, the Energy Segment and the Galvanizing Segment, as defined in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue and operating income by segment to evaluate our segments. Segment operating income consists of net sales less cost of sales and selling, general and administrative expenses that are specifically identifiable to a segment. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Orders and Backlog**

Our entire backlog relates to our Energy Segment and was \$347.3 million as of November 30, 2016, an increase of \$12.8 million, or 3.8%, as compared to \$334.5 million as of February 29, 2016. Our backlog increased \$22.9 million, or 7.1%, as compared to the same period in the prior fiscal year. Both of these increases were primarily the result of the acquisition of PEI on March 1, 2016. For the three months ended November 30, 2016, our book-to-ship ratio increased to 0.98 to 1 from 0.94 to 1 when compared to same period of fiscal 2016 and our incoming orders decreased slightly by \$6.8 million, or 3.0%. The table below includes the progression of the backlog:





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## Backlog Table

(in thousands)(unaudited)

	Period Ended		Period Ended	
Backlog	2/29/2016	\$ 334,456	02/28/2015	\$ 332,595
Bookings		250,479		215,156
Acquired Backlog		11,903		—
Shipments		242,667		228,888
Backlog	5/31/2016	354,171	5/31/2015	318,863
Book to Ship Ratio		1.03		0.94
Bookings		193,712		233,532
Shipments		195,045		214,246
Backlog	8/31/2016	352,838	8/31/2015	338,149
Book to Ship Ratio		0.99		1.09
Bookings		221,874		228,677
Shipments		227,459		242,447
Backlog	11/30/2016	347,253	11/30/2015	324,379
Book to Ship Ratio		0.98		0.94

## Segment Revenues

For the three and nine month periods ended November 30, 2016, consolidated revenues decreased \$15.0 million, or 6.2%, and \$20.4 million, or 3.0%, respectively, as compared to the same periods in fiscal 2016.

The following table reflects the breakdown of revenue by segment:

	Three Months Ended	Nine Months Ended
	11/30/2016	11/30/2015
	11/30/2016	11/30/2015

(In thousands)(unaudited)

## Revenue:

Energy	\$ 135,553	\$ 136,007	\$ 371,256	\$ 383,787
Galvanizing	91,906	106,440	293,915	301,794
Total Revenue	\$ 227,459	\$ 242,447	\$ 665,171	\$ 685,581

Revenues for the Energy Segment decreased 0.3% for the three months ended November 30, 2016, to \$135.6 million as compared to the same period in fiscal 2016. The decrease in revenue during the third quarter was caused by several factors including reduced turnarounds in the U.S. refinery market, continued softness in the petrochemical market, and delays in the release of several large projects in the U.S. and overseas. Revenues decreased 3.3% for the nine months ended November 30, 2016 to \$371.3 million as compared to the same period in fiscal 2016, primarily on softness in the third quarter described above.

Revenues for the Galvanizing Segment decreased 13.7% for the three months ended November 30, 2016, to \$91.9 million as compared to the same period in fiscal 2016. The decline was a result of a volume decrease in steel processed caused by softness in the solar, petrochemical, and the oil and gas markets which offset higher pricing during the period. Revenues decreased 2.6%, for the nine months ended November 30, 2016, to \$293.9 million as compared to the same period in fiscal 2016. The decrease was attributable to the same factors impacting the quarter.

## Segment Operating Income

Operating income for the Energy Segment decreased by \$3.4 million, or 18.1%, to \$15.4 million for the three months ended November 30, 2016 as compared to the same period in fiscal 2016. This decrease is attributable to the reduction in refinery turnarounds described above, which typically carry a higher margin, coupled with generally lower margin projects in the balance of the segment. Operating income decreased \$3.4 million, or 7.5%, to \$42.4 million for the nine months ended November 30, 2016 as compared to the same period of fiscal 2016 and attributable to the same factors impacting the third quarter in addition to the \$0.7 million of realignment costs recorded during the second quarter of fiscal 2017.



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Operating income for the Galvanizing Segment decreased by \$2.9 million, or 12.0%, for the three months ended November 30, 2016 as compared to the same period in fiscal 2016. This decrease was primarily attributable to lower revenues. Operating income decreased \$11.0 million, or 15.4%, for the nine months ended November 30, 2016 as compared to the same period in fiscal 2016, primarily driven by the \$7.3 million of realignment charge related to the shutdown of two galvanizing plants, the repurposing of a third plant, and the disposal of obsolete assets taken in the second quarter of fiscal 2017.

### Corporate Expenses

Corporate expenses increased by \$1.3 million, or 19.3%, and \$3.1 million, or 14.2% for the three and nine month periods ended November 30, 2016 as compared to the same respective periods in fiscal 2016. This increase is attributable to higher spend on professional services, higher employee costs, and depreciation of corporate assets in fiscal 2017.

### Interest

Interest expense for the three and nine month periods ended November 30, 2016 was \$3.7 million and \$11.2 million, respectively. The slight decrease in interest expense for the three and nine month periods ended November 30, 2016 in comparison to the same respective periods in the prior year was the result of a lower average outstanding debt balance. As of November 30, 2016, our gross outstanding debt was \$312.1 million, compared to \$321.9 million outstanding as of November 30, 2015. Our gross debt to equity ratio was 0.60 to 1 as of November 30, 2016, compared to 0.69 to 1 as of November 30, 2015.

### Net Gain On Sale of Property, Plant and Equipment and Insurance Proceeds

For the three months ended November 30, 2016 and 2015, the Company recorded an insignificant net gain due to sales from miscellaneous equipment. For the nine months ended November 30, 2016, the Company recorded an insignificant net loss due to sales from miscellaneous equipment and for the nine months ended November 30, 2015, the Company recorded a net gain of \$0.4 million as a result of insurance proceeds received along with a gain on the sale of our St. Catharines property located in Ontario, Canada.

### Other (Income) Expense

For the three and nine month periods ended November 30, 2016, the amounts recorded to other (income) expense were primarily attributable to an insurance receivable of \$0.6 million and foreign exchange (gains) and losses. For the three and nine month periods ended November 30, 2015, the amounts recorded to other (income) expense were primarily attributable to foreign exchange (gains) and losses.

### Income Taxes

The provision for income taxes reflects an effective tax rate of 29.7% and 27.4% for the three and nine month periods ended November 30, 2016, respectively, as compared to 28.0% and 27.5% for the same respective periods in fiscal 2015.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically met our cash needs through a combination of cash flows from operating activities along with bank and bond market debt. Our cash requirements are generally for operating activities, cash dividend payments, capital improvements, debt repayment and acquisitions. We believe that our cash position, cash flows from operating activities and our expectation of continuing availability to draw upon our credit facilities are sufficient to meet our cash flow needs for the foreseeable future.

For the nine month period ended November 30, 2016, net cash provided by operating activities was \$57.3 million, net cash used in investing activities was \$51.3 million, net cash used in financing activities was \$32.3 million, and a decrease of \$0.4 million from the net effect of exchange rate changes on cash resulting in a net decrease in cash and cash equivalents of \$26.7 million. In comparison to fiscal 2016, the results in the statement of cash flows for the nine month period ended November 30, 2016, are attributable to a decrease in net income, higher charges due to additional realignment recorded during the year, and by a less favorable impact of changes in working capital. The Company's use of cash was lower for capital improvements year over year and fewer acquisitions were completed during the first nine months of fiscal 2017. Repayments under our Credit Agreement were also higher during the first nine months of

fiscal 2017 when compared to the prior year and the Company began purchasing treasury shares during the current fiscal year.

Our working capital was \$180.7 million as of November 30, 2016, as compared to \$144.2 million at November 30, 2015.

On March 27, 2013, we entered into a Credit Agreement (the "Credit Agreement") with Bank of America and other lenders. The Credit Agreement provides for a \$75.0 million term facility and a \$225.0 million revolving credit facility that includes a \$75.0

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million “accordion” feature. The Credit Agreement is used to provide for working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

Interest rates for borrowings under the Credit Agreement are based on either a Eurodollar Rate or a Base Rate plus a margin ranging from 1.0% to 2.0% depending on our Leverage Ratio (as defined in the Credit Agreement). The Eurodollar Rate is defined as LIBOR for a term equivalent to the borrowing term (or other similar interbank rates if LIBOR is unavailable). The Base Rate is defined as the highest of the applicable Fed Funds rate plus 0.50%, the Prime rate, or the Eurodollar Rate plus 1.0% at the time of borrowing. The Credit Agreement also carries a Commitment Fee for the unfunded portion ranging from 0.20% to 0.30% per annum, depending on our Leverage Ratio.

The \$75.0 million term facility under the Credit Agreement requires quarterly principal and interest payments, which commenced on June 30, 2013 and are required to be made through March 27, 2018, the maturity date.

The Credit Agreement provides various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth equal to at least the sum of \$230.0 million, plus 50.0% of future net income, b) maintain on a consolidated basis a Leverage Ratio not to exceed 3.25:1.0, c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of at least 1.75:1.0 and d) not to make Capital Expenditures (as defined in the Credit Agreement) on a consolidated basis in an amount in excess of \$60.0 million during the fiscal year ended February 28, 2014 and \$50.0 million during any subsequent year.

On August 8, 2016 we executed the First Amendment to the Credit Agreement. The changes included, among other things, amendments to covenants including removing the cap on Capital Expenditures, raising the limits on asset disposition and other secured debt, and establishing a basket for investments specifically in joint ventures. The amendment also removed limitations on dividends and on redemption of equity interest as long as the Company’s Leverage Ratio remained below 2.75:1.0.

As of November 30, 2016, we had \$107.0 million of outstanding debt against the revolving credit facility provided and letters of credit outstanding in the amount of \$21.6 million, which left approximately \$96.4 million of additional credit available under the Credit Agreement.

On March 31, 2008, the Company entered into a Note Purchase Agreement (the “Note Purchase Agreement”) pursuant to which the Company issued \$100.0 million aggregate principal amount of its 6.24% unsecured Senior Notes (the “2008 Notes”) due March 31, 2018 through a private placement (the “2008 Note Offering”). Pursuant to the Note Purchase Agreement, the Company’s payment obligations with respect to the 2008 Notes may be accelerated upon any Event of Default, as defined in the Note Purchase Agreement.

The Company entered into an additional Note Purchase Agreement on January 21, 2011 (the “2011 Agreement”), pursuant to which the Company issued \$125.0 million aggregate principal amount of its 5.42% unsecured Senior Notes (the “2011 Notes”), due in January of 2021, through a private placement (the “2011 Note Offering”). Pursuant to the 2011 Agreement, the Company’s payment obligations with respect to the 2011 Notes may be accelerated under certain circumstances.

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth (as defined in the Note Purchase Agreement) equal to at least the sum of \$116.9 million plus 50.0% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed 3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) not at any time permit the aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10.0% of Consolidated Net Worth.

As of November 30, 2016, the Company is in compliance with all of its debt covenants.

Historically, we have not experienced a significant impact on our operations from increases in general inflation other than for specific commodities. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum, steel and nickel based alloys in the Energy Segment and zinc and natural gas in the Galvanizing Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum, steel and nickel based alloys, when market conditions allow and through fixed cost contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing process, supply chain management, and through increases in prices where competitively feasible.



Table of Contents**OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS**

Other than operating leases discussed below, there are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources of the Company.

**CONTRACTUAL COMMITMENTS****Leases**

We lease various facilities under non-cancelable operating leases with an initial term in excess of one year.

**Commodity pricing**

The Company manages its exposure to commodity prices through the use of the following:

In the Energy Segment, we have exposure to commodity pricing for copper, aluminum, steel, and nickel based alloys. Because the Energy Segment does not commit contractually to minimum volumes, increases in price for these items are normally managed through escalation clauses in customer contracts, although during difficult market conditions these escalation clauses may not be obtainable. In addition, we attempt to enter into firm pricing contracts with our vendors on material at the time we receive orders from our customers to minimize risk.

In the Galvanizing Segment, we utilize contracts with our zinc suppliers that include protective caps and fixed cost contracts to guard against rising zinc prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. Management believes these agreements ensure adequate supplies and partially offset exposure to commodity price swings.

We have no contracted commitments for any commodities including steel, aluminum, natural gas, nickel based alloys, copper, zinc or any other commodity, except for those entered into under the normal course of business.

**Other**

As of November 30, 2016, we had outstanding letters of credit in the amount of \$21.6 million. These letters of credit are issued for a number of reasons, but are most commonly issued in lieu of customer retention withholding payments covering warranty or performance periods.

The following summarizes our operating leases, debt principal payments, and interest payments for the next five years and beyond.

	Operating Leases	Long-Term Debt	Interest	Total
Fiscal:	(In thousands)			
2017	\$ 1,904	\$ 2,344	\$ 4,455	\$ 8,703
2018	5,938	16,629	12,279	34,846
2019	4,992	168,161	8,256	181,409
2020	2,812	—	6,775	9,587
2021	2,275	125,000	6,775	134,050
Thereafter	9,360	—	—	9,360
Total	\$ 27,281	\$ 312,134	\$ 38,540	\$ 377,955

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk affecting our operations results primarily from changes in interest rates and commodity prices. We have only limited involvement with derivative financial instruments and are not a party to any leveraged derivatives.

In the Energy Segment, we have exposure to commodity pricing for copper, aluminum, steel and nickel based alloys. Increases in price for these items are normally managed through escalation clauses in our customers' contracts, although during difficult market conditions customers' may resist these escalation clauses. In addition, we attempt to enter into firm pricing contracts with our vendors on material at the time we receive orders from our customers to minimize risk. We manage our exposures to commodity prices, primarily zinc used in our Galvanizing Services Segment, by utilizing agreements with zinc suppliers that include protective caps and fixed contracts to guard against



escalating commodity prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. We believe these agreements ensure adequate supplies and partially offset exposure to commodity price escalation.

As of November 30, 2016, the Company had exposure to foreign currency exchange rates related to our operations in Canada, China, Brazil, Poland, and the Netherlands.

We do not believe that a hypothetical change of 10% of the interest rate or currency exchange rate that are currently in effect or a change of 10% of commodity prices would have a significant adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our customers. However, there can be no assurance that either interest rates, exchange rates or commodity prices will not change in excess of the 10% hypothetical amount or that we would be able to pass along rising costs of commodity prices to our customers, and such hypothetical change could have an adverse effect on our results of operations, financial position, and cash flows.

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Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective and provide reasonable assurance, as of the end of the period covered by this report, that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely discussions regarding required disclosure.

There have been no significant changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are named defendants in various routine lawsuits incidental to our business. These proceedings include labor and employment claims, use of the Company's intellectual property, worker's compensation and various environmental matters, all arising in the normal course of business. Although the outcome of these lawsuits or other proceedings cannot be predicted with certainty, and the amount of any potential liability that could arise with respect to such lawsuits or other matters cannot be predicted at this time, management, after consultation with legal counsel, does not expect liabilities, if any, from these claims or proceedings, either individually or in the aggregate, to have a material effect on the Company's financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

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

In January of 2012, our Board authorized the repurchase of up to ten percent of the outstanding shares of our Common Stock. The share repurchase authorization does not have an expiration date, and the amount and prices paid for any future share purchases under the authorization will be based on market conditions and other factors at the time of the purchase. Repurchases under this share repurchase authorization would be made through open market purchases or private transactions in accordance with applicable federal securities laws, including Rule 10b-18 under the Exchange Act.

As of November 30, 2016, the Company repurchased 100,000 shares at an average price of \$52.82 per share under the Company's share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits Required by Item 601 of Regulation S-K.

A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Index to Exhibits on page 24, which immediately precedes such exhibits.

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SIGNATURES

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

AZZ Inc.  
(Registrant)

DATE: January 6, 2017 By: /s/ Paul W. Fehlman  
Paul W. Fehlman  
Senior Vice President,  
Chief Financial Officer

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EXHIBIT INDEX

- 3.1 Amended and Restated Certificate of Formation of AZZ Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015)
- 3.2 Amended and Restated Bylaws of AZZ Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015)
- 10.1 Note Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and the purchasers listed therein (incorporated by reference to Exhibit 10(1) of the Current Report on Form 8-K filed by the registrant on April 2, 2008).
- 10.2 AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Proxy Statement for the 2008 Annual Shareholders Meeting).
- 10.3 Note Purchase Agreement, dated as of January 20, 2011, by and among AZZ incorporated and the purchasers identified therein (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by the registrant on January 21, 2011).
- 10.4 Credit Agreement, dated as of March 27, 2013, by and among AZZ, Bank of America N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lenders party thereto (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by the registrant on April 2, 2013).
- 10.5 First Amendment to the Credit Agreement, dated as of August 8, 2016, between AZZ, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuers, and the other Lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant on August 10, 2016).
- 10.6\* Amended and Restated Employment Agreement by and between AZZ Inc. and Tom Ferguson, dated as of September 29, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 29, 2016).
- 10.7\* AZZ incorporated 2014 Long Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form DEFA filed May 29, 2014).
- 10.8\* First Amendment to AZZ Inc. 2014 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the registrant on January 21, 2016).
- 31.1 Certification by Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed Herewith.
- 31.2 Certification by Chief Financial Officer Certificate pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed Herewith.
- 32.1 Certification by Chief Executive Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed Herewith.
- 32.2 Chief Financial Officer Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed Herewith.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

\* Management contract, compensatory plan or arrangement.

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