CSW INDUSTRIALS, INC.
Form 10-K
June 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2016

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 incorporation or organization)	**(I.R.S. Employer 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 x

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 x

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 x 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 x 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the registrant s common stock held by non-affiliates as of September 30, 2015 was approximately $480.8 million, based upon the when issued trading price of the registrant s common stock as of such date. As of September 30, 2015 (the last business day of our most recently completed second fiscal quarter), the registrant s common stock only traded on a when issued basis. The registrant s common stock did not start trading regular way on the Nasdaq Global Select Market until October 1, 2015.

As of June 2, 2016, the latest practicable date, 15,718,188 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 2016 Annual Meeting of Stockholders scheduled to be held on August 8, 2016 is incorporated by reference into Part III hereof.

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PART I

Unless otherwise specified, or the context otherwise requires, the references in this Annual Report on Form 10-K for the year ended March 31, 2016 (Annual Report) to our company, the Company, we, us, our or CSWI refer Industrials, Inc. together with our operating subsidiaries, which includes The RectorSeal Corporation (RectorSeal), The Whitmore Manufacturing Company (Whitmore), Jet-Lube, Inc. (Jet-Lube), Balco, Inc. (Balco), Strathmore Holdings, LLC (Strathmore), Smoke Guard, Inc. (Smoke Guard and all of the Company s operating subsidiaries collectively, the Operating Subsidiaries).

ITEM 1: BUSINESS

Overview

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

Our Company

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across three business segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilation and air conditioning (HVAC) and refrigeration applications, coatings and sealants and high performance specialty lubricants. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining and other general industrial markets.

Drawing on our innovative and proven technologies, we seek to deliver solutions to our professional customers that require superior performance and reliability. We believe 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 we are well positioned to offer our customers an increasingly broad portfolio of performance optimizing solutions. We have a successful record of making accretive acquisitions in the last five fiscal years, we completed 13 acquisitions for an aggregate purchase price of $187.3 million. We believe there are further attractive acquisition opportunities available within the markets in which we operate.

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

Prior to the Share Distribution, our Operating Subsidiaries operated as separate businesses, which are discussed below:

RectorSeal. RectorSeal formulates specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations for plumbing, HVAC, electrical and industrial

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applications, electrical control and mechanical devices, and accessories for ductless mini-split HVAC systems. RectorSeal also makes innovative products for tradesmen and innovative systems for containing flames and smoke from building fires. These products are distributed both domestically and internationally through an extensive distribution network serving the plumbing, industrial, HVAC, refrigeration, construction, electrical and hardware markets.

RectorSeal was established in 1937 and acquired by Capital Southwest in 1969. It has facilities in Houston, Texas; Fall River, Massachusetts; and Brisbane, Australia. Portions of RectorSeal s operating results are included in each of our three business segments.

Whitmore. Whitmore manufactures high performance, specialty lubricants for heavy equipment used in surface mining, railroad and other industries. Whitmore also manufactures lubrication equipment, specifically for rail applications, and reliability solutions for a wide variety of industries, including manufacturing, steel, sugar and power. In addition, Whitmore produces water-based coatings for the automotive and primary metals industries.

Whitmore products and services are sold in over 100 countries around the world through a service intensive distribution network committed to technical support and customer satisfaction. Whitmore s primary customer base is located in Australia, Brazil, Canada, China, Colombia, the Netherlands, Russia, South Africa, Sweden, the United Kingdom (U.K.) and the United States (U.S.).

Whitmore was established in 1893 and acquired by Capital Southwest in 1979. It has facilities in Rockwall, Texas and in the U.K. Portions of Whitmore s operating results are included in each of our three business segments.

Jet-Lube. Jet-Lube is a leading manufacturer of anti-seize compounds, thread sealants and specialty lubrication products and greases. Jet-Lube serves customers worldwide in a wide variety of industries, including energy, water well, mining, manufacturing, electric utility, food processing and agriculture, construction, transportation, valve maintenance, forestry, military, HVAC and plumbing.

Jet-Lube products are available worldwide through an extensive distribution network with a combination of factory representatives and warehouses in key locations. Portions of Jet-Lube s operating results are included in our Coatings, Sealants & Adhesives and Specialty Chemicals business segments.

Jet-Lube was established in 1949 and acquired by Capital Southwest in 1973. It has operations in the U.S., Canada and the U.K.

Strathmore. Strathmore manufactures custom designed coatings for customers in various industries, including the rail, mining and industrial sectors. Strathmore markets and sells its products worldwide through a direct sales force.

Strathmore was founded in 1942 in Syracuse, New York and acquired by Capital Southwest in April 2015. In addition to its facility in New York, Strathmore has facilities in Longview, Texas; Acworth, Georgia; and Houston, Texas. Strathmore s operating results are included in our Coatings, Sealants & Adhesives segment.

Smoke Guard. Smoke Guard manufactures certified custom safety products for the commercial construction market and other markets requiring smoke and fire protection. Smoke Guard s proprietary technologies control the movement of smoke and are sold through exclusive distributors primarily in the U.S. Smoke Guard s operating results are included in our Industrial Products segment.

Smoke Guard was founded in 1991 and operates in Boise, Idaho and Concord, California. It was acquired by Capital Southwest in 2004.

Balco. Balco is engaged in the fabrication of aluminum and plastic extrusions and products related to safety, slip resistance and emergency egress used by the commercial building industry worldwide.

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Balco was founded in Wichita, Kansas in 1958 and was acquired by Capital Southwest in 1989. It also has a facility in Oklahoma City, Oklahoma. Balco s operating results are included in our Industrial Products segment.

Our Competitive Strengths

We believe we have the following competitive strengths:

Broad Portfolio of Industry Leading Products and Solutions

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

Sustainable Organic Revenue Growth and Operating Performance

We focus on end markets with strong growth trends, such as HVAC, rail and construction. We also have a loyal customer base that recognizes the performance and quality of our products and solutions, including continuously evaluating the potential uses of existing products to broaden our market penetration. Further, our customer base is diverse for the fiscal year ended March 31, 2016, no single customer represented more than 10% of our net revenues.

These factors have enabled us to generate strong margin performance. We continue to improve our profitability through targeted investments to further optimize our manufacturing processes. For example, in the Specialty Chemicals segment, we are in the process of consolidating the manufacturing of some of our lubricant and grease products into our Rockwall, Texas facility in order to optimize capacity, improve efficiency and leverage technologies while enhancing product quality and internal environmental, health and safety standards. Further, we continue to refine our manufacturing processes in all of our manufacturing facilities to lower manufacturing costs, increase production capacity and improve product quality.

Stable Platform for Acquisitions with Proven Track Record

We believe our experience in identifying, completing and integrating acquisitions is one of our core competitive strengths, as evidenced by the 34 acquisitions we have successfully completed since 1991. Since April 1, 2011, we have invested $187.3 million in acquisitions that either (1) added new products designed to service our existing end markets or (2) provided an entry into new, complementary end markets where we can drive revenue growth and improved profitability. Historically, our acquisitions have been relatively small, lower-risk acquisitions of a product that we have identified as having the potential to benefit from our extensive distribution network and manufacturing efficiencies. We have also consummated larger acquisitions that complement our business model.

We completed three acquisitions during the fiscal year ended March 31, 2016. Effective April 1, 2015, we acquired substantially all of the assets of Strathmore, a leading participant in the coatings market. Strathmore also has a history of successfully integrating acquisitions, having completed five acquisitions since 1993. Effective October 1, 2015, we acquired substantially all of the assets of Deacon Industries, Inc., a leading manufacturer of high temperature sealants and injectable packings. Effective December 15, 2015, we acquired substantially all of the assets of AC Leak Freeze, a leading manufacturer of original equipment manufacturer-safe air conditioning and refrigerant leak repair solutions.

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Culture of Product Enhancement and Customer Centric Solutions

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

Diverse Sales and Distribution Channels

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

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

Experienced Management Team

Our management team is highly regarded in each of our business segments. Collectively, our management team, including our executive officers, has an average of 25 years of experience in the industrial manufacturing and specialty chemicals industries. They have a successful track record of recognizing and capitalizing upon attractive opportunities in the key markets we serve, and our executive management team has a strong record of effectively managing capital and delivering operating efficiencies over time. In addition, our management team has demonstrated strong capabilities in sourcing and executing strategic and accretive acquisitions.

Our Growth Strategy

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

Benefits Resulting from the Share Distribution

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

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

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Leveraging Existing Customer Relationships and Products and Solutions

We expect to continue to increase revenue 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 expect to leverage our existing customer base to cross-sell our products and solutions across our three business segments, thereby growing organically.

Focused Acquisitions that Leverage our Distribution Channels

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

Operational Excellence

We focus on operational excellence in all aspects of our business, with the end goals of improved efficiencies and increased profitability. We will continue to expand improvement initiatives and information sharing across our entire platform, promoting best practices. For example, to accelerate the process of leveraging best practices across our business segments, we recently organized an operations summit among the manufacturing and procurement leaders of our three business segments, which is expected to generate approximately $2 million in annual procurement savings across the business once it is fully implemented. Manufacturing footprint optimization, including the integration of Jet-Lube and Whitmore that is expected to be completed during the fiscal year ended March 31, 2017, is expected to generate approximately $5 million in annual savings in our Specialty Chemicals segment. The majority of these savings will begin to be realized during the fiscal year ending March 31, 2017 with full run-rate savings expected by the end of the fiscal year ending March 31, 2017. We expect to benefit from exploiting new synergy opportunities by applying our best practices when integrating acquisitions. See Note 2 to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data (Item 8) of this Annual Report for financial and other information regarding our operations.

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. We generally 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.

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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 16 to our consolidated financial statements included in Item 8 of this Annual Report for financial and other information regarding our operations.

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. However, violations may occur in the future as a result of human error, equipment failure or other causes. Further, we cannot predict the nature, scope or effect of environmental legislation or regulatory requirements that could be imposed or how existing or future laws or regulations will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by us and could have a material impact on our business, financial condition and results of operations.

Employees

As of March 31, 2016, we employed approximately 725 individuals. Of these employees, 14 are represented by unions. We believe relations with our employees throughout our operations are generally satisfactory, including those employees represented by unions. No unionized facility accounted for more than 10% of our consolidated revenues for the year ended March 31, 2016.

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 website our Corporate Governance Guidelines and Code of Business Conduct and Ethics, as well as the charters of our Audit Committee, our Compensation and Talent Development Committee and our Nominating and Corporate Governance Committee. You may access these documents in the Corporate Governance section on the Investors page of our website.

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Business Segments

We operate in three business segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. The table below provides an overview of these business segments. For financial information regarding our segments, see Note 16 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	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	Plumbing HVAC Refrigeration Electrical Commercial construction Rail car and locomotive General industrial	
Coatings, Sealants & Adhesives	Coatings and penetrants Pipe thread sealants Firestopping sealants and caulks Adhesives/solvent cements	Rail car and locomotive Oil and gas Commercial construction Plumbing HVAC Refrigeration Electrical General industrial	
Specialty Chemicals	Lubricants and greases Drilling compounds	Energy Drilling and boring	

Anti-seize compounds	Water well drilling
Chemical formulations	Mining
Degreasers and cleaners	Rail car and locomotive
	Steel
	Power generation
	Cement
	Aviation
	Plumbing
	HVAC
	Electrical
	General industrial

Industrial Products

Our Industrial Products business consists of: specialty mechanical products; fire and smoke protection products; architecturally-specified building products; and storage, filtration and application equipment for use with our specialty chemicals and other products for general industrial applications. These industrial products are primarily manufactured internally, although we strategically engage third-party manufacturers for certain

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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.

Products Types	*Brand Names*
Specialty Mechanical Products	
condensate switches, traps and pans	Airtec®
line set covers	Clean Check®
condensate removal pumps and equipment mounting brackets	EZ Trap®
air diffusers for use by professional air conditioning contractors	Fortress®
tamper resistant locking refrigerant caps;	Goliath® Pans
ductless mini-split systems installation support tools	G-O-N®
drain waste and vent systems mechanical products	Hubsett
decorative roof drain downspout nozzles	Magic Vent®
wire pulling head tools.	Mighty Bracket
	Novent®
	Safe-T-Switch®
	Slim Duct
	SureSeal®
	Titan Pans
	Wire Grabber
Fire and Smoke Protection Products	
fire-rated and smoke-rated opening protective systems	Smoke Guard®
Architecturally-Specified Building Products	
expansion joint covers	Balco®
fire barriers	DuraFlex
specialty silicone seals	llumiTread
stair nosings	MetaBlock
partition closure systems	MetaFlex
entrance mats and grids	MetaGrate

photoluminescent egress markings and signage	MetaMat
trench and access covers	Michael Rizza
architectural grating	UltraGrid
Storage, Filtration and Application Equipment	
lubrication application and management systems	Air Sentry®
storage and filtration devices	Guardian®
	Oil Safe®
	Whitmore Rail

New Product Development Customer intimacy is a core competency in our Industrial Products segment. We gather the 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 our competitors products through websites, tradeshows and patent applications. We develop new products and modify existing products in our research and development (R&D) labs in Houston, Texas; Rockwall, Texas; Boise, Idaho; and Wichita, Kansas.

Competition Our competition in the Industrial Products segment is varied. Competitors range from small entrepreneurial companies with a single product, to large multinational original equipment manufacturers (OEMs). In the specialty mechanical products category, we compete with Diversitech, Supco, Little Giant, Mitsubishi, Cherne, Mainline and JR Smith. Most of these products are sold through distribution channels, and we compete based on breadth of product line, customer service and pricing. In the fire and smoke protection

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

Customers Our primary customers for specialty mechanical products are plumbing, HVAC and electrical wholesalers and distributors. Some of these are local single location distributors, but many are regional or national in scope with hundreds of locations. The majority of this business is 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 through a network of distributors. Storage, filtration and application products are marketed and sold worldwide through a service-intensive distribution network.

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

Coatings, Sealants & Adhesives

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

Products Types	*Brand Names*
High performance coatings designed to increase the reliability, performance and lifespan of industrial equipment	Bio Fireshield
	Deacon®
Engineered specialty thread sealants designed to seal and secure metal	KATS® Coatings
Specialty sealants for high temperature applications	Metacaulk®
Solvent cements and fire stop caulks	Railplex®
	RectorSeal No. 5®
	Stratholiner
	T plus 2®
	Tru-Blu

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

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

Customers For coatings, we primarily serve OEMs and end users in rail, energy, general industrial, power generation and marine markets through our direct sales force and internationally through a distribution network.

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Customers include rail car and locomotive manufacturers, petrochemical facilities, industrial manufacturers, construction, utilities and plant maintenance customers. We serve sealants and adhesives customers primarily through our distribution network.

Specialty Chemicals

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

Products Types	*Brand Names*
Railroad track lubricants, conditioners and positive friction consumables	AC Leak Freeze®
Oil field anti-seize products for drilling and conveyance piping	Biorail®
Open gear specialty lubricants for heavy equipment	Decathlon
Specialty lubricants for various industrial applications	Envirolube®
Water well treatment products and services	Gearmate®
Chemical sealants to stop air-conditioning refrigerant leaks	KOPR-KOTE®
	Medallion
	Paragon
	Rail Armor®
	Run-N-Seal®
	Sterilene
	Surtac®
	TOR Armor®
	Unicid

Well-Guard®

Whitcan®

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

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

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

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ITEM 1A: RISK FACTORS

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

Risks Relating to Our Business and Industry

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

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

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

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

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

- weak economic conditions, especially in our key end markets, including the energy industry, could reduce demand for our products, impacting our revenues and margins;

- as a result of volatility in commodity prices, we may encounter difficulty in achieving sustained market acceptance of past or future price increases, which could have a material adverse effect on our financial position, results of operations and cash flows;

under difficult market conditions, there can be no assurance that access to credit or the capital markets would be available or sufficient, and in such a case, we may not be able to successfully obtain additional financing on reasonable terms, or at all; and

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

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

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

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

The cyclical nature of certain industries in which our business operates can cause significant fluctuations in our results of operations and cash flows.

The cyclical nature of the supply and demand balance of 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.

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 current 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.

We rely on independent distributors. Termination of one or more of our relationships with any of those parties or an increase in their 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 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 our customers. Almost all of the distributors with whom we transact business also offer competitors products and services to our customers. The loss of a substantial number of our distributors, or an increase in the distributors sales of our competitors products to our customers, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

We believe that building and maintaining market awareness, brand recognition and goodwill is critical to our success. This will depend largely on our ability to continue to provide high-quality products, and we may not be able to do so effectively. Our efforts in developing our industrial brands may be affected by the marketing

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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 or increase manufacturing, assembly, testing or other costs. If a contractor 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 consolidate our manufacturing facilities without incurring unanticipated costs and disruptions to our business.

As part of our efforts to streamline and rationalize our manufacturing processes, we are consolidating certain manufacturing facilities. For example, we are in the process of consolidating the production of all lubricant and grease products currently manufactured in one of our Houston, Texas facilities to our Rockwall, Texas facility in order to optimize capacity and efficiency. Because of unanticipated events, including the actions of governments, suppliers, employees or customers, we may not realize the synergies, cost reductions and other benefits of any consolidation to the extent we currently expect.

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

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

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

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

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

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

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

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

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

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

- we may assume unknown liabilities, 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; and

The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.

Certain of the acquisition agreements by which we have acquired companies require the former owners to indemnify us against certain liabilities related to the operation of the company before we acquired it. In most of these agreements, however, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure you that these indemnification provisions will protect us fully or at all, and, as a result, we may face unexpected liabilities that adversely affect our financial statements.

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

As a manufacturing company, we rely on our employees and good relations with our employees to produce our products and maintain our production processes and productivity. As of March 31, 2016, we had approximately 725 full-time employees, of which 14 were subject to collective bargaining agreements. If our workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted, or we could experience higher labor costs. In addition, if significant portions of our employees were to become unionized, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

We and many of our customers are subject to various national 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 that require the use of products that we and other manufacturers sell. For example, certain environmental regulations may encourage the use of more environmentally friendly products, such as some of the lubricants and greases that we manufacture. If these regulations were to change, our results of operations could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business relies heavily on trademarks, trade secrets, other intellectual property and proprietary information, and our failure to protect our rights could harm our competitive advantages with respect to the manufacturing 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 preserve our intellectual property.

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

Our intellectual property may not provide us with any competitive advantage and may be challenged by third parties. Moreover, our competitors may already hold or in the future may hold intellectual property rights in the U.S. or abroad that, if enforced or issued, could possibly prevail over our rights or otherwise limit our ability to manufacture or sell one or more of our products in the U.S. or internationally.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to our Recent Separation from Capital Southwest

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

The Company began operating as a standalone, publicly traded Company on October 1, 2015. The historical combined financial information included in this Annual Report, as well as our Information Statement on Form 10 filed with the SEC, for periods prior to October 1, 2015 reflects historical financial information of our Operating Subsidiaries and does not necessarily reflect the financial condition, results of operations or cash flows we would have achieved as a standalone, publicly traded company during the periods presented or that we may achieve in the future. For example, historical combined financial information reflects allocations of expenses for services historically provided by Capital Southwest, and those allocations may be different than the comparable expenses we would have incurred as a standalone company. Additionally, the historical combined financial information does not reflect the changes that have and will occur in our cost structure, management, financing arrangements and business operations related to being an independent, publicly traded company, as well as other changes as we transition to an integrated industrial manufacturing company.

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

Prior to the Share Distribution, we operated as independent companies. Our management is in process of integrating the separate businesses, technologies, organizations, procedures, policies and operations of our subsidiaries into an integrated industrial manufacturing company, which is necessary to fully realize the expected results of the Share Distribution. The integration process may prove to be more complex and time-consuming and require substantially more resources and effort than currently anticipated, which could have a material adverse effect on us and our operations, relationships with market participants, employees, regulators and others.

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

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

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

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

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

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

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

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

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

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

Our ability to engage in certain corporate transactions is limited.

Our ability to engage in significant equity transactions is restricted in order to preserve the tax-free status of the Share Distribution to Capital Southwest for U.S. federal income purposes. Even if the Share Distribution otherwise qualifies for tax-free treatment to Capital Southwest s shareholders under the Code, it may be taxable to Capital Southwest if 50% or more, by vote or value, of the shares of our common stock or Capital Southwest s common stock are acquired or issued as part of a plan or series of related transactions that includes the Share Distribution. For this purpose, any acquisitions or issuances of Capital Southwest s common stock within two years before the Share Distribution, and any acquisitions or issuances of our common stock or Capital Southwest s common stock within two years after the Share Distribution, generally are presumed to be part of such a plan, although we or Capital Southwest may be able to rebut that presumption. If an acquisition or issuance of shares of our common stock or Capital Southwest s common stock triggers the application of the Code, Capital Southwest would recognize a taxable gain as a result of the Share Distribution to the extent the fair market value of our common stock exceeds Capital Southwest s tax basis in our common stock at the time of the Share Distribution.

Under a Tax Matters Agreement that was entered into by Capital Southwest and us, there are restrictions on our ability to take actions that could cause the Share Distribution to fail to qualify for favorable treatment under

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the Code, and we will be required to indemnify Capital Southwest against any tax liabilities arising as a result of the Share Distribution that are attributable to any actions taken by us or with respect to us or any of our affiliates. As a result, we may be limited or restricted from entering into strategic, capital raising or other transactions which might be advantageous to us or our stockholders.

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

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

Potential liabilities may arise due to fraudulent transfer considerations, which would adversely affect our financial condition and our results of operations.

In connection with the Share Distribution, Capital Southwest undertook several corporate restructuring transactions which, along with the Spin-off, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the Share Distribution, any entity involved in these restructuring transactions or the Share Distribution: (1) was insolvent; (2) was rendered insolvent by reason of the Share Distribution; (3) had remaining assets constituting unreasonably small capital; or (4) intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured, then the court could void the Share Distribution, in whole or in part, as a fraudulent conveyance or transfer. The court could then require our stockholders to return to Capital Southwest some or all of the shares of our common stock issued in the Share Distribution, or require Capital Southwest or us, as the case may be, to fund liabilities of the other company for the benefit of creditors.

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 sim statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

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

- our business strategy;

future levels of revenues, operating margins, income from operations, net income or earnings per share;

anticipated levels of demand for our products and services;

future levels of research and development, capital, environmental or maintenance expenditures;

our beliefs regarding the timing and effects on our business of health and safety, tax, environmental or other legislation, rules and regulations;

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- the success or timing of completion of ongoing or anticipated capital, restructuring or maintenance projects;
- expectations regarding the acquisition or divestiture of assets and businesses;
- our ability to obtain appropriate insurance and indemnities;
- the potential effects of judicial or other proceedings, including tax audits, on our business, financial condition, results of operations and cash flows;
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation;
- the expected impact of accounting pronouncements;
- the expected benefits of being a standalone publicly-traded company; and
- the other factors listed above under Risk Factors.

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

ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2: PROPERTIES

Properties

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

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

Location	Use	Segment	Square Footage	Owned/Leased
Boise, Idaho	Manufacturing, Office and R&D	Industrial Products	40,800	Leased
Fall River, Massachusetts	Manufacturing	All	140,200	Leased
Houston, Texas	Manufacturing, office, R&D	Coatings, Sealants & Adhesives	36,000	Leased
Houston, Texas	Manufacturing and Office	All	253,900	Owned
Houston, Texas	Manufacturing	Coatings, Sealants & Adhesives and Specialty Chemicals	146,000	Leased
Longview, Texas	Manufacturing	Coatings, Sealants & Adhesives	53,200	Owned
Oklahoma City, Oklahoma	Manufacturing	Industrial Products	30,600	Owned
Rockwall, Texas	Manufacturing, Office, R&D and Warehouse	All	227,600	Owned
Syracuse, New York	Manufacturing	Coatings, Sealants & Adhesives	20,900	Owned
Wichita, Kansas	Manufacturing	Industrial Products	42,800	Owned

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

ITEM 3: LEGAL PROCEEDINGS

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio 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 began when issued trading on the Nasdaq Global Select Market on September 16, 2015. Regular way trading on the Nasdaq Global Select Market began on October 1, 2015. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock, as reported by Nasdaq:

	High	Low
Second Quarter of FY 2016 (September 16, 2015 September 30, 2015)	$ 38.00	$ 23.20
Third Quarter of FY 2016 (October 1, 2015 December 31, 2015)	$ 39.96	$ 30.25
Fourth Quarter of FY 2016 (January 1, 2016 March 31, 2016)	$ 37.75	$ 27.84

On June 2, 2016, the closing price of our common stock on the Nasdaq Global Select Market was $33.84 per share.

Holders

As of June 2, 2016, there were approximately 548 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in street name or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Dividend Policy

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

Issuer Purchases of Equity Securities

None.

Stock Performance Chart

The following graph compares the cumulative total shareholder return on our common stock from October 1, 2015 through March 31, 2016 compared with the Standard & Poor s (S&P) Small Cap 600 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

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

ITEM 6: SELECTED FINANCIAL DATA

(Amounts in thousands,	Fiscal Years ended March 31,				
except per share data)	2016 (a)	2015 (a)	2014 (a)	2013 (a)	2012 (a)
RESULTS OF OPERATIONS					
Revenues, net	$ 319,831	$ 261,834	$ 231,713	$ 199,094	$ 171,035
Gross profit	147,864	126,425	112,086	94,582	78,389
Operating expenses	(100,378)	(82,391)	(74,173)	(62,335)	(53,743)
Operating income	47,486	44,034	37,913	32,247	24,646
Interest (expense) income, net	(3,035)	(611)	(131)	74	523
Provision for income taxes	(18,754)	(15,223)	(12,794)	(10,707)	(7,755)
Net income from continuing operations	25,471	29,705	24,732	22,513	16,829
Net income per diluted share	1.62	1.90	1.58	1.44	1.08
FINANCIAL CONDITION					
Working capital	123,958	93,774	90,884	77,196	85,688
Total assets	392,260	286,521	277,820	236,521	195,957
Total debt	89,682	26,704	45,097	23,348	6,100
Retirement obligations and other liabilities	13,566	30,255	12,233	12,070	12,531
Total equity	258,010	204,601	196,186	176,522	160,029

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(a) 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 the Operating 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 the Operating 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 year ended March 31, 2016 (Annual Report) for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated.

EXECUTIVE OVERVIEW

The Share Distribution

On December 2, 2014, Capital Southwest announced its plan to spin-off certain of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses by means of a distribution of the outstanding shares of common stock of CSWI on a pro rata basis to holders of Capital Southwest common stock. The Share Distribution occurred on September 30, 2015, and CSWI became an independent, publicly traded company. Prior to the Share Distribution, Capital Southwest contributed to CSWI all of the outstanding capital stock of the entities described below:

RectorSeal formulates and manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations. RectorSeal also makes specialty tools for tradesmen and innovative systems for containing flames and smoke from building fires. RectorSeal s operating results are divided amongst each of our three business segments.

Whitmore manufactures high performance, specialty lubricants for heavy equipment used in surface mining, railroad and other industries. Whitmore also manufactures lubrication equipment, specifically for rail applications, and lubrication-centric reliability solutions for a wide variety of industries, and produces water-based coatings for the automotive and primary metals industries. Whitmore s operating results are divided amongst each of our three business segments.

Jet-Lube is a world leader in anti-seize compounds, thread sealants and specialty lubrication products and greases for the energy industry. Jet-Lube s operating results are divided amongst our Coatings, Sealants & Adhesives and Specialty Chemicals segments.

Strathmore is engaged in the manufacturing of paint for sale to industrial clients and is a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds. Strathmore s operating results are included in the Coatings, Sealants & Adhesives segment.

Balco is engaged in the fabrication of aluminum and plastic extrusions and other materials related to safety, slip resistance and emergency egress. Balco s operating results are included in the Industrials Products segment.

Smoke Guard manufactures certified custom safety products for the commercial construction market and other markets requiring smoke and fire protection. Smoke Guard s operating results are included in the Industrials Products segment.

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

Our Company

We are a diversified industrial growth company with well-established, scalable platforms and domain expertise across three segments: Industrial Products; Coatings, Sealants & Adhesives; and Specialty Chemicals. Our broad portfolio of leading products provides performance optimizing solutions to our customers. Our products include mechanical products for heating, ventilation and air conditioning (HVAC) and refrigeration applications, coatings and sealants and high performance specialty lubricants. Markets that we serve include HVAC, industrial, rail, plumbing, architecturally-specified building products, energy, mining, and other general

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industrial markets. Our operations are concentrated in the U.S., but we also have operations in Australia, Canada and the United Kingdom, and our products are sold directly or through designated channels both domestically and internationally.

Many of our products are used to protect the capital assets of our customers that are expensive to repair or replace and are critical to their operations. The maintenance, repair and overhaul and consumable nature of many of our products is a source of recurring revenue for us. We also provide some custom and semi-custom products, which enhance our customer relationships. Our diverse product portfolio includes more than 100 highly respected industrial brands including RectorSeal No. 5 thread sealants, KOPR KOTE anti-seize lubricants, Safe-T-Switch® condensate overflow shutoff devices, KATS® coatings, and Air Sentry® breathers. Our products are well known in the specific industries we serve and have a reputation for high quality and reliability. We use contract manufacturers to manufacture certain products, but the majority of these products are either privately-labeled or manufactured exclusively for us. Third party-manufactured products accounted for approximately 53%, 21% and 4% of the net revenues of the Industrial Products, Coatings, Sealants & Adhesives and Specialty Chemicals segments, respectively, for the fiscal year ended March 31, 2016. The use of third party manufacturers resulted in an increase of approximately 11% in operating margins when compared to the operating margins of internally-manufactured products for the fiscal year ended March 31, 2016.

Prior to the Share Distribution, we operated as separate entities. 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 consolidated financial statements for periods prior to the Share Distribution may not include all of the expenses that would have been incurred had the businesses been standalone companies during those periods and may not reflect the consolidated results of operations, financial position, and cash flows as standalone companies during all periods presented. Based on our initial projections and current activity level, we expect recurring corporate overhead to be at least $1.5 million per quarter. We expect to incur capital costs in the next few years to integrate our operations, including the consolidation of some of our manufacturing facilities. As a result of these efforts, we expect to operate more efficiently and effectively. We also expect to incur additional costs as a result of being a public company, such as additional employee-related costs, costs to start up certain standalone corporate functions, information systems costs and other organizational-related costs. We expect the synergies that may be achieved through our integration efforts to offset the additional costs in the longer term.

We believe that our broad portfolio of products and markets served and our brand recognition will continue to provide opportunities; however, we face ongoing challenges affecting many companies, such as environmental and other regulatory compliance and overall global economic uncertainty. During the year ended March 31, 2016, we experienced spending declines at many of our customers in the energy and mining end markets as they addressed market issues related to lower market prices for crude oil, gas and other natural resources. To a lesser extent, these spending declines also indirectly impacted other end markets that we serve including rail and industrial. We expect that certain challenges relating to the current energy environment will persist throughout 2016. During the fiscal year ended March 31, 2016, we saw strong sales growth in other key end markets such as HVAC, where our innovative mechanical products and chemicals have increased market penetration, and architecturally specified building products, which is currently benefitting from a robust commercial construction cycle.

Our Markets

The following discussion should be read in conjunction with the Outlook for Fiscal Year 2017 section included below.

HVAC

The HVAC market is our largest market served and it represented approximately 22% and 24% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We provide an extensive array of products for repair and maintenance of HVAC systems that includes our largest product family, condensate switches, as well as condensate pans, air diffusers, condensate pumps, refrigerant caps, line set covers and other 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. HVAC 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, 2017, we anticipate growth in the HVAC market to be stronger than the gross domestic product, but lower than recent historical growth due to the slowdown in the installation of new HVAC units in the U.S.

Industrial

The industrial end market represented approximately 19% and 18% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. The industrial end market includes customers who manufacture chemicals, steel equipment and a wide variety of materials. We include sales of industrial coatings, lubricants and breathers, as well as various other industrial products in the industrial end market. We serve this market primarily through a network of industrial distributors. We expect our sales into this market in the next fiscal year to grow slightly higher than the gross domestic product due to our innovative technologies and recent acquisitions.

Rail

The rail market represented approximately 16% and 5% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We provide an array of products into the rail industry, including lubricants and lubricating devices for rail lines, which increase efficiency and reduce noise for and extend the life of rail cars, and coating of tank cars and locomotives. We leverage our technical expertise to build relationships with key decision-makers to ensure that our products meet required specifications. The rail industry is driven by the transportation of natural resources, including coal and petrochemical products, and has experienced slowdowns as a result of declines in the mining and energy markets, which in turn, has resulted in a reduction in rail miles traveled and reduced production of new tank cars. For the fiscal year ending March 31, 2017, we anticipate ongoing challenges in the rail coatings industry as it continues to be impacted by the mining and energy markets and due to the increased use of natural gas, which is transported by pipeline, for domestic power generation.

Plumbing

The plumbing market represented approximately 15% and 16% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We provide many products to the plumbing industry including thread sealants, solvent cements, fire-stopping products, condensate switches and traps, 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 industry in the fiscal year ending March 31, 2017.

Architecturally-Specified Building Products

Architecturally-specified building products represented approximately 14% and 15% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We manufacture and sell products such as expansion joints, stair nosings and smoke and fire protection systems for large commercial buildings and parking garages. Sales of these products are driven by architectural specifications and safety codes, and the sales process is typically long as these are multi-year construction projects. International expansion is driving revenues in this end market as larger buildings are being designed and built. The construction market is a key driver for sales of architecturally-specified building products and our outlook for growth in new construction is stronger than the gross domestic product in the fiscal year ending March 31, 2017.

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Energy

The energy market represented approximately 7% and 13% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We provide market-leading lubricants and anti-seize compounds, as well as greases, for use in maintenance of oilfield drilling equipment. We also provide coatings to the energy industry for storage tanks, drum containers and general refinery maintenance. The outlook for the energy industry is heavily dependent on the demand growth from both mature markets and developing geographies. We believe increased crude oil supply resulted in the significant decline in the price of oil beginning in the fourth quarter of 2014, and we believe the lower oil prices will continue to negatively impact energy upstream investment most acutely and impact mid-stream and downstream investment to a lesser extent. We expect this will negatively impact the demand for our products used in oil and gas drilling applications in the fiscal year ending March 31, 2017.

Mining

The mining market represented approximately 4% and 7% of our net sales in the fiscal years ended March 31, 2016 and 2015, respectively. We provide market-leading lubricants to open gear boxes used in large mining excavation equipment, primarily through our distribution network. The mining industry has experienced headwinds recently due to reduced coal prices, which is caused by lower oil and gas prices. We are not anticipating any significant improvement in the mining industry in the fiscal year ending March 31, 2017.

RESULTS OF OPERATIONS

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

The acquisitions listed below impact comparability:

Acquisition