

CSW INDUSTRIALS, INC.
Form 10-Q
November 16, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

OR

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

FOR THE TRANSITION PERIOD FROM _____ to _____.

Commission File No. 001-37454

CSW INDUSTRIALS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

47-2266942
(I.R.S. Employer

incorporation or organization)

Identification No.)

5400 Lyndon B. Johnson Freeway, Suite 1300, Dallas,
Texas

75240

(Address of principal executive offices)

(Zip Code)

(972) 233-8242

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of November 6, 2015, there were 15,583,332 shares of the issuer's common stock outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****CSW INDUSTRIALS, INC.****Item 1. Financial Statements.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(Amounts in thousands, except per share amounts)	Three Months Ended September 30,	
	2015	2014
Revenues, net	\$ 83,744	\$ 68,094
Cost of revenues	(42,901)	(34,919)
Gross profit	40,843	33,175
General and administrative expenses	(9,860)	(8,673)
Selling and distribution expenses	(9,556)	(10,640)
Research and development expenses	(649)	(1,451)
Impairment loss		(662)
Operating income	20,778	11,749
Interest expense, net	(832)	(178)
Other (expense) income, net	(113)	1,008
Income before income taxes	19,833	12,579
Provision for income taxes	(6,871)	(4,341)
Net income	\$ 12,962	\$ 8,238
Net earnings per common share:		
Basic	\$ 0.83	\$ 0.53
Diluted	0.83	0.52

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

(Amounts in thousands)	Three Months Ended September 30,	
	2015	2014
Net income	\$ 12,962	\$ 8,238
Other comprehensive income (loss):		
	(2,312)	(1,912)

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Foreign currency translation adjustments, net of taxes of \$1,245 and \$1,007, respectively		
Cash flow hedging activity, net of taxes of \$169	(313)	
Pension and other postretirement effects, net of taxes of \$(2,611)	4,848	
Other comprehensive income (loss)	2,223	(1,912)
Comprehensive income	\$ 15,185	\$ 6,326

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CSW INDUSTRIALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(Amounts in thousands, except per share amounts)	Six Months Ended September 30,	
	2015	2014
Revenues, net	\$ 172,654	\$ 136,891
Cost of revenues	(91,367)	(69,919)
Gross profit	81,287	66,972
General and administrative expenses	(22,481)	(16,315)
Selling and distribution expenses	(21,851)	(21,206)
Research and development expenses	(1,889)	(2,897)
Impairment loss		(662)
Operating income	35,066	25,892
Interest expense, net	(1,499)	(346)
Other (expense) income, net	(178)	1,488
Income before income taxes	33,389	27,034
Provision for income taxes	(11,777)	(9,048)
Net income	\$ 21,612	\$ 17,986
Net earnings per common share:		
Basic	\$ 1.39	\$ 1.15
Diluted	1.38	1.14

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

(Amounts in thousands)	Six Months Ended September 30,	
	2015	2014
Net income	\$ 21,612	\$ 17,986
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$663 and \$300, respectively	(1,217)	(597)
Cash flow hedging activity, net of taxes of \$(102)	215	
Pension and other postretirement effects, net of taxes of \$(2,611) and \$73, respectively	4,848	(146)

Other comprehensive income (loss)	3,846	(743)
Comprehensive income	\$ 25,458	\$ 17,243

See accompanying notes to condensed consolidated financial statements.

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CSW INDUSTRIALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except per share amounts)	September 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,945	\$ 20,448
Restricted cash		2,385
Bank time deposits	7,006	9,248
Accounts receivable, net of allowance of \$1,290 and \$1,692, respectively	56,447	48,941
Inventories, net	55,055	47,175
Prepaid expenses and other current assets	11,973	6,812
Total current assets	184,426	135,009
Property, plant and equipment, net of accumulated depreciation of \$55,774 and \$52,954, respectively	60,265	56,837
Goodwill	55,730	40,645
Intangible assets, net	80,491	40,997
Other assets	12,683	13,033
Total assets	\$ 393,595	\$ 286,521
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 11,689	\$ 8,960
Accrued and other current liabilities	18,339	16,001
Current portion of long-term debt	17,436	13,561
Total current liabilities	47,464	38,522
Long-term debt	76,738	13,143
Retirement benefits payable	1,644	22,545
Other long-term liabilities	14,886	7,710
Total liabilities	140,732	81,920
Equity:		
Common shares, \$0.01 par value	156	12
Shares authorized 50,000		
Shares issued 15,583		
Preferred shares, \$0.01 par value		1,000
Shares authorized 10,000		
Shares issued 0		

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Additional paid-in capital	29,058	7,810
Treasury shares, at cost		(2,712)
Retained earnings	230,096	208,784
Accumulated other comprehensive loss	(6,447)	(10,293)
Total equity	252,863	204,601
Total liabilities and equity	\$ 393,595	\$ 286,521

See accompanying notes to condensed consolidated financial statements.

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CSW INDUSTRIALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(Amounts in Thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Investment of Capital Southwest	Accumulated Other Comprehensive Loss	Total Equity
Balance at March 31, 2015	\$	\$	\$ 208,784	\$ 6,110	\$ (10,293)	\$ 204,601
Net income			21,612			21,612
Dividends			(300)			(300)
Other comprehensive income, net of tax					3,846	3,846
Effects of Share Distribution and contributions from Capital Southwest	156	29,058		(6,110)		23,104
Balance at September 30, 2015	\$ 156	\$ 29,058	\$ 230,096	\$	\$ (6,447)	\$ 252,863

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CSW INDUSTRIALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(Amounts in thousands)	Six Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 21,612	\$ 17,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,256	2,980
Amortization of intangible assets	3,293	2,267
Net gain on sales of property, plant and equipment	(203)	(1,711)
Impairment of assets		662
Pension plan curtailment benefit	(8,020)	
Net deferred taxes	8,027	(687)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,178)	(1,205)
Inventories, net	477	(1,073)
Prepaid expenses and other current assets	(6,334)	(181)
Other assets	258	120
Accounts payable and accrued and other current liabilities	393	(1,071)
Retirement obligations and other liabilities	14	1,768
Net cash provided by operating activities	21,595	19,855
Cash flows from investing activities:		
Capital expenditures	(3,192)	(6,350)
Proceeds from sale of assets held for investment		3,547
Proceeds from sale of assets	71	6,361
Net change in bank time deposits and restricted cash	4,440	719
Cash paid for acquisitions	(68,849)	(4,524)
Net cash used in investing activities	(67,530)	(247)
Cash flows from financing activities:		
Borrowings on lines of credit	70,000	4,822
Repayments on lines of credit	(2,531)	(13,333)
Cash contribution from Capital Southwest	13,000	
Dividends paid	(300)	(450)
Net cash provided by (used in) financing activities	80,169	(8,961)
Effect of exchange rate changes on cash and cash equivalents	(737)	(433)

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Net increase in cash and cash equivalents	33,497	10,214
Cash and cash equivalents, beginning of period	20,448	15,411
Cash and cash equivalents, end of period	\$ 53,945	\$ 25,625

Supplemental non-cash disclosure:

Pension plan assets contributed by Capital Southwest	\$ 10,357	\$
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See accompanying notes to condensed consolidated financial statements.

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CSW INDUSTRIALS, INC.

(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS AND SUMMARY OF ACCOUNTING POLICIES

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

The Share Distribution

On December 2, 2014, Capital Southwest Corporation (Capital Southwest) announced its plan to spin-off certain of its industrial products, coatings, sealants and adhesives and specialty chemicals businesses by means of a distribution of the outstanding shares of common stock of CSWI on a pro rata basis to holders of Capital Southwest common stock (the Share Distribution). The Share Distribution occurred on September 30, 2015, and CSWI became an independent, publicly traded company. Prior to the Share Distribution, Capital Southwest contributed to CSWI all of the outstanding capital stock of The RectorSeal Corporation (RectorSeal), The Whitmore Manufacturing Company (Whitmore), Jet-Lube, Inc. (Jet-Lube), Strathmore Holdings, LLC. (Strathmore), Balco, Inc. (Balco), Smoke Guard Inc. (Smoke Guard) and CapStar Holdings Corporation (CapStar), \$13.0 million in cash and pension assets of \$10.4 million (CSWI assumed both the pension plan assets and obligations associated with the defined benefit pension plan), and net of \$0.3 million in equity issuance costs. The following is a brief description of each business:

RectorSeal formulates and manufactures specialty chemical products including pipe thread sealants, firestop sealants, plastic solvent cements and other formulations. RectorSeal also makes specialty tools for tradesmen and innovative systems for containing flames and smoke from building fires.

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

Jet-Lube is a world leader in anti-seize compounds, thread sealants and specialty lubrication products and greases for the energy industry.

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Strathmore is engaged in the manufacturing of paint for sale to industrial clients and is a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds.

Balco is engaged in the fabrication of aluminum and plastic extrusions and other materials related to safety, slip resistance and emergency egress.

Smoke Guard manufactures certified custom safety products for the commercial construction market and other markets requiring smoke and fire protection.

CapStar acquires, holds and manages certain real estate and other assets. The operations of CapStar are not material to us.

Basis of Presentation

CSWI began operations on September 30, 2015 as a result of the Share Distribution. With the exception of cash funded at inception and the contributed capital stock of the businesses discussed above, we did not own any material assets prior to the Share Distribution. The historical financial position, results of operations and cash flows included in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (*Quarterly Report*) represent the condensed consolidated financial statements of the businesses discussed above. As these businesses were under common control of Capital Southwest for all historical periods, the financial statements have been consolidated for all historical periods and equity accounts presented in the Balance Sheet as of March 31, 2015 represent the combined equity accounts of these businesses. Equity accounts presented in the Balance Sheet as of September 30, 2015 represent the equity of CSWI. The condensed consolidated financial statements have been prepared on a standalone basis and are derived from the underlying accounting records of the underlying businesses in conformity with United States (*U.S.*) generally accepted accounting principles (*GAAP*).

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The condensed consolidated financial statements include all revenues, costs, assets and liabilities directly attributable to the businesses discussed above. However, the condensed consolidated financial statements may not include all of the expenses that would have been incurred had the businesses been operating as separate publicly-traded (standalone) companies during the periods presented and may not reflect the consolidated results of operations, financial position, and cash flows as a standalone company during the periods presented. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of September 30, 2015, the related condensed consolidated statements of income and comprehensive income for the three and six months ended September 30, 2015 and 2014, and the condensed consolidated statements of cash flows for the six months ended September 30, 2015 and 2014, of CSWI are unaudited. In management s opinion, all adjustments comprising normal recurring adjustments necessary for the fair statement of such condensed consolidated financial statements have been made.

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

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

Accounting Policies

We have consistently applied the accounting policies described in our Information Statement in preparing these condensed consolidated financial statements.

Accounting Developments

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

In June 2014, the FASB issued ASU No. 2014-12 Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU was issued to address share-based payment awards with a performance target affecting vesting that could be achieved after the employee s requisite service period. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the

financial statements and to all new or modified awards thereafter. We are currently evaluating the impact of ASU No. 2014-12 on our consolidated financial condition and results of operations.

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

In April 2015, the FASB issued ASU No. 2015-05, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service

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contract. The new guidance does not change the accounting for a customer's accounting for service contracts. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. We are currently evaluating the impact of ASU No. 2015-05 on our consolidated financial condition and results of operations.

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

2. ACQUISITIONS*Strathmore Products, Inc.*

Effective April 1, 2015, we acquired the assets of Strathmore, a leading manufacturer of specialized industrial coating products including urethanes, epoxies, acrylics and alkyds, for \$68.8 million, plus up to an additional \$16.5 million within a prescribed period of time following March 31, 2017, depending on the achievement of certain performance metrics during the fiscal years ending March 31, 2016 and 2017. A liability of \$2.0 million was recorded based on the projected achievement of the performance metrics as estimated using the Monte Carlo simulation methodology. The acquisition was funded from borrowings of \$70 million, which are described in Note 7. Transaction costs incurred in connection with the acquisition were approximately \$2.5 million (including \$0.2 million incurred during the fiscal year ended March 31, 2015) and are reported in general and administrative expenses in the accompanying consolidated statements of income. The excess of the purchase price over the fair value of the identifiable assets acquired was \$15.1 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be achieved from an increased market presence in the industrial coatings sector and a platform from which to grow through end-market and geographic expansion. The fair value of the assets acquired includes trade names and trademarks, customer relationships and non-compete agreements of \$14.9 million, \$27.4 million and \$0.4 million, respectively. Customer relationships and the non-compete agreements are being amortized over 15 years and five years, respectively, while trade names, trademarks and goodwill are not being amortized.

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

Accounts receivable	\$ 4,902
Inventory	8,447
Property, plant and equipment	3,761
Intangible assets	42,650
Other, net	241
Current liabilities	(4,297)
 Net tangible and intangible assets	 55,704
Goodwill	15,095

Purchase price	\$ 70,799
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Strathmore has been included in the Coatings, Sealants and Adhesives segment since its effective acquisition date. Net revenue attributable to Strathmore since the date of acquisition was \$30.4 million. Pro forma information regarding Strathmore is provided below (in thousands, except per share amounts):

		Three months ended September 30,	
		2015	2014
Revenues, net		\$ 83,744	\$ 85,208
Operating income		20,778	13,839
Net income		12,962	9,236
Earnings per share	Basic	\$ 0.83	\$ 0.59
Earnings per share	Diluted	0.83	0.59

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		Six months ended September 30,	
		2015	2014
Revenues, net		\$ 172,654	\$ 169,593
Operating income		35,066	29,936
Net income		21,612	20,041
Earnings per share	Basic	\$ 1.39	\$ 1.29
Earnings per share	Diluted	1.38	1.28

SureSeal Manufacturing

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

Evo-Crete and Polyslab product lines

On August 15, 2014, we acquired the Evo-Crete and Polyslab product lines for \$4.5 million from the Evolve Group located in Brisbane, Queensland and formed a new entity, RectorSeal Australia, Pty. Ltd. RectorSeal Australia focuses on the plumbing, HVAC and irrigation markets. Evo-Crete and Polyslab will continue to be manufactured in Australia. The purchase was funded from borrowings of \$3.0 million with the remainder funded from internal working capital. The excess of the purchase price over the fair value of the identifiable assets acquired was \$1.5 million and was allocated to goodwill, which will be deductible for income tax purposes. Goodwill represents the value expected to be obtained from a more extensive HVAC product portfolio and expansion of existing RectorSeal product sales into the Australian market. The fair value of the assets acquired include customer lists, patents, trademarks and a non-compete agreement of \$1.2 million, \$0.7 million, \$0.4 million, and \$0.1 million, respectively, as well as property, plant, and equipment in the amount of \$0.7 million. Customer lists, patents and the non-compete agreement are being amortized over 15 years, 10 years and five years, respectively, while trademarks and goodwill are not being amortized. The RectorSeal Australia activity has been included in the Industrial Products segment since the acquisition date. No pro forma information has been provided due to immateriality.

3. INVENTORIES

Inventories consist of the following (in thousands):

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	September 30, 2015	March 31, 2015
Raw materials and supplies	\$ 29,690	\$ 21,837
Work in process	5,298	5,626
Finished goods	26,378	25,325
Total inventories	61,366	52,788
Less: LIFO reserve	(5,304)	(5,456)
Less: Obsolescence reserve	(1,007)	(157)
Inventories, net	\$ 55,055	\$ 47,175

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Changes in the carrying amount of goodwill for the period ended September 30, 2015 were as follows (in thousands):

	Industrial Products	Coatings, Sealants and Adhesives	Specialty Chemicals	Total
Balance at March 31, 2015	\$ 36,323	\$ 920	\$ 3,402	\$ 40,645
Acquisition of Strathmore		15,095		15,095
Currency translation	(10)			(10)
Balance at September 30, 2015	\$ 36,313	\$ 16,015	\$ 3,402	\$ 55,730

Intangible assets consist of the following (in thousands):

		September 30, 2015		March 31, 2015	
	Useful Life (Years)	Ending Gross Amount	Accumulated Amortization	Ending Gross Amount	Accumulated Amortization
Finite-lived intangible assets:					
Patents	5-20	\$ 14,396	\$ (8,108)	\$ 14,284	\$ (7,608)
Customer lists and amortized trademarks	10-20	64,516	(14,114)	37,091	(11,516)
Non-compete agreements (1)	5-12	897	(294)	2,877	(2,458)
Other	4-5	452	(179)	412	(137)
		\$ 80,261	\$ (22,695)	\$ 54,664	\$ (21,719)
Trade names and trademarks not being amortized:		\$ 22,925	\$	\$ 8,052	\$

(1) During the six months ended September 30, 2015, we wrote off \$2.3 million of expired and fully amortized non-compete agreements.

Amortization expense for the three-month periods ended September 30, 2015 and 2014 was \$1.6 million and \$1.2 million, respectively. Amortization expense for the six-month periods ended September 30, 2015 and 2014 was \$3.3 million and \$2.3 million, respectively. The following table shows the estimated future amortization for intangible assets as of September 30, 2015, for the remainder of the current fiscal year and the next five years ending March 31 (in thousands):

2016	\$ 3,127
2017	6,271
2018	6,141
2019	6,049

2020	5,270
2021	4,978

5. ACCRUED AND OTHER CURRENT LIABILITIES

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

	September 30, 2015	March 31, 2015
Compensation and related benefits	\$ 9,400	\$ 9,212
Rebates and marketing agreements	2,036	1,515
Commissions	1,152	1,157
Sales and property taxes	1,173	373
Other accrued expenses	4,578	3,744
Total accrued and other current liabilities	\$ 18,339	\$ 16,001

6. SHARE-BASED COMPENSATION

In September 2015, in connection with the Share Distribution, we adopted our 2015 Equity and Incentive Compensation Plan (the "2015 Plan"), which provides for the issuance of up to 1,230,000 shares of CSWI common stock through the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units or other share-based awards, to employees, officers and non-employee Directors, as well as the issuance of awards in connection with the Share Distribution.

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In connection with the Share Distribution, all stock option and restricted stock awards granted by Capital Southwest were adjusted and each holder of an award received both Capital Southwest and CSWI stock options and restricted stock awards.

Each Capital Southwest stock option was converted into both a Capital Southwest stock option and a CSWI stock option, with adjustments made to the exercise prices and number of shares subject to each option in order to preserve the aggregate intrinsic value of the original Capital Southwest stock option as measured immediately before and immediately after the Share Distribution, subject to rounding. The adjusted Capital Southwest stock options and CSWI stock options will be subject to substantially the same terms, vesting conditions, post-termination exercise rules and other restrictions that applied to the original Capital Southwest stock options immediately before the Share Distribution. Options generally expire 10 years from the date of grant and are generally exercisable on or after the first anniversary of the date of grant in five annual installments. The fair value of stock options is determined using the Black-Scholes pricing model and such fair value is expensed on a straight-line basis over the requisite service period.

The Capital Southwest restricted stock awards will remain outstanding and the awardees additionally received one share of CSWI restricted stock for each share of Capital Southwest restricted stock held, which shares are subject to substantially the same terms, vesting conditions and other restrictions applicable to the Capital Southwest restricted stock award immediately before the Share Distribution. Restricted Stock awards generally have full voting and dividend rights, but are restricted with regard to sale or transfer. Unless otherwise specified in the award agreement, the restrictions do not expire for a minimum of one year and a maximum of five years and are subject to forfeiture during the restriction period. Typically, restricted share grants have staggered vesting periods over one to five years from the grant date. The fair value of restricted stock is based on the closing price of common stock on the date of grant and such fair value is expensed on a straight-line basis over the requisite service period.

The issuance of share-based compensation awards occurred in conjunction with the Share Distribution after the market closed on September 30, 2015. As such, no grant, exercise or cancellation activity occurred during the six months ended September 30, 2015. We will record compensation expense for share-based awards granted by CSWI to CSWI employees and share-based awards granted by Capital Southwest to employees who are now employed by CSWI.

Share-based awards outstanding under the 2015 Plan as of September 30, 2015 were as follows:

	Stock Options		Restricted Shares	
	Number	Weighted		Weighted
	of Shares	Average	Number of	Average
	(1)	Exercise	Shares	Grant Date
		Price		Fair Value
Outstanding at September 30, 2015 (2)	368,487	\$ 24.40	141,960	\$ 17.11

(1) 22,906 options were exercisable as of September 30, 2015.

(2)

Stock options and restricted shares presented in this table represent outstanding CSWI awards, including awards held by Capital Southwest employees.

At September 30, 2015, we had unrecognized compensation cost related to non-vested stock options of \$1.0 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 2.4 years. At September 30, 2015, we had unrecognized compensation cost related to unvested restricted shares of \$1.1 million, which will be amortized into net income over the remaining weighted average vesting period of approximately 2.3 years. The calculation of unrecognized compensation cost and weighted average periods include share-based awards granted by CSWI to CSWI employees and share-based awards granted by Capital Southwest to employees who are now employed by CSWI.

7. LONG-TERM DEBT

Debt consists of the following (in thousands):

	September 30, 2015	March 31, 2015
RectorSeal line of credit, interest rate of 2.5% and 1.77%, respectively	\$ 12,500	\$ 13,000
Strathmore acquisition term loan, interest rate of 3.19%	68,250	
Whitmore term loan, interest rate of 2.19% and 2.17%, respectively	13,424	13,704
Total debt	94,174	26,704
Less: Current portion	(17,436)	(13,561)
Long-term debt	\$ 76,738	\$ 13,143

Table of Contents***RectorSeal Line of Credit***

As of September 30, 2015, RectorSeal had a \$30.0 million secured line of credit with a bank available for acquisitions and general corporate purposes. On July 21, 2015, the maturity date on the line of credit was extended to July 31, 2016. Quarterly interest payments are required. Borrowings under the line of credit bear interest at a variable annual rate of either the one month London Interbank Offered Rate (LIBOR) plus 1.5% or 0.75% less than the bank floating rate. The line of credit is secured by accounts receivable, inventory, equipment, investments, and other assets of RectorSeal (excluding its subsidiaries). As of September 30, 2015 and March 31, 2015, RectorSeal had \$12.5 million and \$13.0 million, respectively, in outstanding borrowings under the line of credit. The agreement contains certain restrictive covenants requiring RectorSeal to maintain a minimum tangible net worth (excluding its subsidiaries). Covenant compliance is tested quarterly and RectorSeal was in compliance with all covenants as of September 30, 2015.

Strathmore Acquisition Term Loan

As of September 30, 2015, Whitmore had a secured term loan outstanding to support our acquisition of Strathmore. The term loan matures on April 27, 2020 and is secured by the assets of Whitmore and Strathmore, excluding certain real property. The term loan has a quarterly payment schedule that began on July 31, 2015. We have quarterly payments of \$875,000 in each of the next two quarters and \$1.3 million in each of the following two quarters. Borrowings under the term loan bear interest at a variable annual rate equal to one month LIBOR plus 3.0%. Whitmore had \$68.3 million and \$0 in outstanding borrowings under the term loan as of September 30, 2015 and March 31, 2015, respectively.

Whitmore Line of Credit

As of September 30, 2015, Whitmore had a \$20.0 million secured line of credit with a syndicate of four commercial banks available for general corporate purposes. The line of credit matures on April 27, 2020. Borrowings under the line of credit bear interest at a variable annual rate of 0.5% less than the bank floating rate. As of March 31, 2014, Whitmore had outstanding borrowings of \$4.3 million under the line of credit. Whitmore paid the entire balance during the quarter ended December 31, 2014. As of September 30, 2015 and March 31, 2015, Whitmore had no outstanding borrowings under the line of credit.

Whitmore Term Loan

As of September 30, 2015, Whitmore had a secured term loan outstanding related to a newly constructed warehouse and corporate office building and the remodel of an existing manufacturing and research and development facility. The term loan matures on July 31, 2029, and we have quarterly payments of \$140,000 due in each of the next four quarters. Borrowings under the term loan bear interest at a variable annual rate equal to one month LIBOR plus 2.0%. As of September 30, 2015 and March 31, 2015, Whitmore had \$13.4 million and \$13.7 million, respectively, in outstanding borrowings under the term loan.

The Whitmore line of credit and term loans are secured by the Whitmore property referenced above and other assets of Whitmore. The agreements contain certain restrictive covenants requiring Whitmore to limit capital expenditures, maintain a minimum fixed charge coverage ratio and a maximum leverage ratio. Covenant compliance is tested quarterly and Whitmore was in compliance with all covenants as of September 30, 2015.

Balco Line of Credit

As of September 30, 2015, Balco had a \$1.5 million unsecured revolving line of credit with a bank available for working capital purposes. The line of credit matured on October 29, 2015 and was not renewed. Borrowings under the line of credit bore interest at a variable annual rate of 0.5% less than the U.S. prime interest rate, with a floor of 3.75%. As of September 30, 2015 and March 31, 2015, Balco had no outstanding borrowings under the line of credit.

Future Minimum Debt Payments

As of September 30, 2015, our future minimum debt payments are as follows for fiscal years ending March 31 (in thousands):

2016	\$ 2,031
2017	18,311
2018	7,561
2019	7,561
2020	5,811
Thereafter	52,899
Total	\$ 94,174

Table of Contents**8. EARNINGS PER SHARE**

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

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share for the three and six months ended September 30, 2015 and 2014 (amounts in thousands, except per share data):

	Three Months Ended September 30,	
	2015	2014
Numerator:		
Net income for basic and diluted earnings per share	\$ 12,962	\$ 8,238
Denominator:		
Weighted average common shares outstanding, basic	15,583	15,583
Potentially dilutive securities (1)	128	128
Weighted average common shares outstanding, diluted	15,711	15,711
Earnings per common share:		
Basic	\$ 0.83	\$ 0.53
Diluted	0.83	0.52
	Six Months Ended September 30,	
	2015	2014
Numerator:		
Net income for basic and diluted earnings per share	\$ 21,612	\$ 17,986
Denominator:		
Weighted average common shares outstanding, basic	15,583	15,583
Potentially dilutive securities (1)	128	128
Weighted average common shares outstanding, diluted	15,711	15,711
Earnings per common share:		
Basic	\$ 1.39	\$ 1.15
Diluted	1.38	1.14

(1) We have excluded 32,877 shares from all periods presented as their effect would have been anti-dilutive.

9. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

As required by our debt agreements, we enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. As of September 30, 2015 and March 31, 2015, we had \$47.5 million and \$13.7 million, respectively, of notional amount in outstanding designated interest rate swaps with third parties. All interest rate swaps are highly effective. At September 30, 2015, the maximum remaining length of any interest rate swap contract in place was approximately 13.8 years.

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

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

	September 30, 2015	March 31, 2015
Current derivative liabilities	\$ 611	\$
Non-current derivative liabilities	913	1,206

Current and non-current derivative liabilities are reported in our consolidated balance sheets in Accrued and other current liabilities and Other long-term liabilities, respectively. The impact of changes in fair value of interest rate swaps is included in Note 15.

Table of Contents**10. FAIR VALUE MEASUREMENTS**

The fair value of interest rate swaps disclosed in Note 9 are determined using Level 2 inputs. The carrying value of our debt, included in Note 7, approximates fair value as it bears interest at floating rates. The carrying amounts of other financial instruments (i.e., cash and cash equivalents, restricted cash, bank time deposits, accounts receivable, net, accounts payable) approximated their fair values at September 30, 2015 and March 31, 2015 due to their short-term nature.

The fair values of contingent payments disclosed in Note 2 are estimated using Level 3 inputs. The contingent payment related to the Strathmore acquisition utilized the Monte Carlo simulation methodology and employed 200,000 trials using a risk neutral Geometric Brownian Motion methodology. The volatility used in the Monte Carlo analysis was based on the observed equity volatility of comparable companies, and the risk free discount rate was the U.S. treasury rate corresponding to the respective term of each earn-out. The most significant factor in the valuation is Strathmore's projected earnings before interest, taxes, depreciation and amortization. The contingent payment related to the acquisition of the SureSeal assets utilized the weighted average probability method using forecasted sales and gross margin. The most significant factor in the valuation is projected net revenues resulting from sales of SureSeal products. The fair value of contingent payments was \$8.1 million and \$5.8 million as of September 30, 2015 and March 31, 2015, respectively. Aside from the increase due to the contingent consideration related to Strathmore, all other changes in the fair value of contingent payments during the six months ended September 30, 2015 represent the impact of the passage of time and are recorded in General and administrative expenses.

11. RETIREMENT PLANS

We maintain a qualified defined benefit pension plan (the "Qualified Plan") that covers substantially all of our U.S. employees. Benefits are based on years of service and an average of the highest five consecutive years of compensation during the last ten years of employment. The Qualified Plan is closed to any employees hired or re-hired on or after January 1, 2015. The Qualified Plan has been amended to freeze benefit accruals and to modify certain ancillary benefits provided under the Qualified Plan effective as of September 30, 2015. A remeasurement was performed at September 30, 2015 to reflect the amendment of the Qualified Plan that froze participation and all future benefit accruals. The freeze of the Qualified Plan as of September 30, 2015 required the immediate recognition of a curtailment gain due to the accelerated recognition of all remaining prior service costs (benefits) and the decrease in the projected benefit obligation. The freeze of the Qualified Plan will reduce net periodic pension expense for the remainder of the current year based on the remeasurement.

The funding policy of the Qualified Plan is to contribute annual amounts that are currently deductible for federal income tax purposes. No contributions were made during the three or six month periods ended September 30, 2015 and 2014.

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

		Three months ended September 30,	
		2015	2014
Service cost	benefits earned during the period	\$ 1,272	\$ 710
Interest cost on projected benefit obligation		746	691
Expected return on assets		(715)	(625)

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Amortization of net prior service (benefit) cost	(42)	(70)
Curtailment benefit	(8,051)	

Net pension (benefit) expense	\$ (6,790)	\$ 706
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		Six months ended September 30,	
		2015	2014
Service cost	benefits earned during the period	\$ 2,042	\$ 1,520