AZZ INC
Form 10-Q
September 29, 2015

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

FORM 10-Q

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

For the quarterly period ended August 31, 2015

OR

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

Commission file number 1-12777

AZZ Inc.
(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	75-0948250 (I.R.S. Employer Identification No.)
One Museum Place, Suite 500 3100 West Seventh Street Fort Worth, Texas (Address of principal executive offices)	76107 (Zip Code)

(817) 810-0095
Registrant's telephone number, including area code:
AZZ incorporated
(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 ý 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 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 ý	Accelerated filer ¨
Non-accelerated filer ¨	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 ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class:	Outstanding at August 31, 2015:
Common Stock, $1.00 par value per share	25,794,094

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	8/31/2015	2/28/2015
	(In thousands, except per share data)	
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$20,226	22,527
Accounts receivable (net of allowance for doubtful accounts of $910 as of August 31, 2015 and $1,472 as of February 28, 2015)	133,091	125,638
Inventories:		
Raw material	71,863	62,794
Work-in-process	35,160	42,001
Finished goods	6,055	2,902
Costs and estimated earnings in excess of billings on uncompleted contracts	35,310	33,676
Deferred income taxes	709	4,526
Prepaid expenses and other	8,209	4,570
Total current assets	310,623	298,634
Property, plant and equipment, net	223,573	196,583
Goodwill	287,789	279,074
Intangibles and other assets, net	162,062	162,623
	$984,047	$936,914
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$51,774	$49,580
Income tax payable	3,785	2,888
Accrued salaries and wages	21,725	17,046
Other accrued liabilities	20,100	18,287
Customer advance payments	23,956	28,401
Profit sharing	10	6,400
Billings in excess of costs and estimated earnings on uncompleted contracts	8,724	4,674
Debt due within one year	22,724	21,866
Total current liabilities	152,798	149,142
Debt due after one year	337,478	315,982
Deferred income taxes	46,162	51,738
Total liabilities	536,438	516,862
Commitments and contingencies		
Shareholders' equity:		
Common stock, $1 Par Value, Shares Authorized 100,000 (25,794 Shares at August 31, 2015 and 25,732 Shares at February 28, 2015)	25,794	25,732
Capital in excess of par value	30,952	27,706
Retained earnings	418,882	389,446
Accumulated other comprehensive loss	(28,019)	(22,832)
Total shareholders' equity	447,609	420,052
	$984,047	$936,914

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	8/31/2015	8/31/2014	8/31/2015	8/31/2014
	(In thousands, except per share data)			
	(Unaudited)			
Net sales	$214,246	$193,416	$443,134	$409,542
Cost of sales	160,741	151,316	330,325	312,053
Gross margin	53,505	42,100	112,809	97,489
Selling, general and administrative	27,086	19,144	53,505	46,685
Operating income	26,419	22,956	59,304	50,804
Interest expense	4,023	4,224	7,869	8,432
Net (gain) loss on sale of property, plant and equipment and insurance proceeds	(25)	3	(449)	(23)
Other (income) expense - net	547	17	855	(14)
Income before income taxes	21,874	18,712	51,029	42,409
Income tax expense	4,631	4,943	13,862	13,715
Net income	$17,243	$13,769	$37,167	$28,694
Earnings per common share				
Basic earnings per share	$0.67	$0.54	$1.44	$1.12
Diluted earnings per share	$0.67	$0.53	$1.44	$1.11

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	8/31/2015	8/31/2014	8/31/2015	8/31/2014
	(In thousands) (Unaudited)			
Net income	$17,243	$13,769	$37,167	$28,694
Other comprehensive income (loss):				
Foreign currency translation adjustments				
Unrealized translation gains (losses)	(4,796)	(627)	(5,160)	2,380
Interest rate swap, net of income tax of $7 and $7, $15, and $15, respectively.	(14)	(14)	(27)	(27)
Other comprehensive income (loss)	(4,810)	(641)	(5,187)	2,353
Comprehensive income	$12,433	$13,128	$31,980	$31,047

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	8/31/2015	8/31/2014
	(In thousands)	
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	$37,167	$28,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	(473)	(63)
Amortization and depreciation	23,125	23,371
Deferred income taxes	(1,623)	(1,050)
Net Loss on Disposition of Property, Plant & Equipment Due To Realignment	464	2,652
Net gain on sale of property, plant & equipment and insurance proceeds	(449)	(23)
Amortization of deferred borrowing costs	680	723
Share-based compensation expense	2,523	2,638
Effects of changes in assets & liabilities:		
Accounts receivable	(4,348)	3,892
Inventories	(511)	(7,199)
Prepaid expenses and other	(3,862)	1,064
Other assets	(352)	(140)
Net change in billings related to costs and estimated earnings on uncompleted contracts	2,183	(1,286)
Accounts payable	2,878	10,406
Other accrued liabilities and income taxes payable	(2,545)	(9,853)
Net cash provided by operating activities	54,857	53,826
Cash Flows From Investing Activities:		
Proceeds from sale or insurance settlement of property, plant, and equipment	668	66
Purchase of property, plant and equipment	(21,746)	(11,462)
Acquisition of subsidiaries, net of cash acquired	(49,818)	(10,500)
Net cash used in investing activities	(70,896)	(21,896)
Cash Flows From Financing Activities:		
Excess tax benefits (expense) from share-based compensation	(45)	381
Proceeds from revolving loan	89,481	10,891
Payments on revolving loan	(49,080)	(5,000)
Payments on long term debt	(18,036)	(17,098)
Payments of dividends	(7,731)	(7,181)
Net cash (used in) provided by financing activities	14,589	(18,007)
Effect of exchange rate changes on cash	(851)	139
Net increase (decrease) in cash & cash equivalents	(2,301)	14,062
Cash & cash equivalents at beginning of period	22,527	27,565
Cash & cash equivalents at end of period	$20,226	$41,627
Supplemental disclosures		
Cash paid for interest	$7,480	$8,076
Cash paid for income taxes	$9,889	$8,684

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

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands)
(unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at February 28, 2015	25,732	$25,732	$27,706	$389,446	$ (22,832)	$420,052
Stock compensation	15	15	2,508	—	—	2,523
Restricted stock units	9	9	(196)	—	—	(187)
Stock issued for SARs	8	8	(77)	—	—	(69)
Employee stock purchase plan	30	30	1,056	—	—	1,086
Excess tax benefits (expense) from share-based compensation	—	—	(45)	—	—	(45)
Cash dividend paid	—	—	—	(7,731)	—	(7,731)
Net income	—	—	—	37,167	—	37,167
Foreign currency translation	—	—	—	—	(5,160)	(5,160)
Interest rate swap, net of $15 income tax	—	—	—	—	(27)	(27)
Balance at August 31, 2015	25,794	$25,794	$30,952	$418,882	$ (28,019)	$447,609

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

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AZZ incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

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

Presentation

The accompanying condensed consolidated balance sheet as of February 28, 2015, which was derived from audited financial statements, and the unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended February 28, 2015, included in the Company’s Annual Report on Form 10-K covering such period.

Our fiscal year ends on the last day of February and is identified as the fiscal year for the calendar year in which it ends. For example, the fiscal year ended February 28, 2015 is referred to as fiscal 2015.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which are necessary to present fairly the financial position of the Company as of August 31, 2015, the results of its operations for the three and six months ended August 31, 2015 and 2014, and cash flows for the six months ended August 31, 2015 and 2014. These interim results are not necessarily indicative of results for a full year.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are recognized as deferred charges and recorded as other assets. The guidance is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted and is to be implemented retrospectively. Adoption of the new guidance will only affect the presentation of the Company's consolidated balance sheets and will have no impact to our operating results. The company will implement the guidance beginning in fiscal 2017.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", issued as a new Topic, Accounting Standards Codification (ASC) Topic 606 ("ASU 2014-09"). The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The premise of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 can be adopted by the Company either retrospectively or as a cumulative-effect adjustment as of the date of adoption. On April 1, 2015, the FASB decided to defer the effective date of the new revenue standard by one year. As a result, public entities would apply the new revenue standard to annual reporting periods beginning after December 15, 2017. This standard will be effective for the Company beginning in fiscal 2019.

The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

2. Earnings Per Share

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

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

	Three Months ended August 31,		Six Months Ended August 31,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands except per share data)			
Numerator:				
Net income for basic and diluted earnings per common share	$17,243	$13,769	$37,167	$28,694
Denominator:				
Denominator for basic earnings per common share–weighted average shares	25,782	25,657	25,769	25,640
Effect of dilutive securities:				
Employee and Director stock awards	140	101	123	109
Denominator for diluted earnings per common share	25,922	25,758	25,892	25,749
Earnings per share basic and diluted:				
Basic earnings per common share	$0.67	$0.54	$1.44	$1.12
Diluted earnings per common share	$0.67	$0.53	$1.44	$1.11

3. Share-based Compensation

The Company has one share-based compensation plan, the 2014 Long Term Incentive Plan (the “Plan”) under which share-based compensation may currently be granted. The purpose of the Plan is to aid in attracting and retaining highly qualified employees and provide a means for such employees to acquire an ownership interest in the Company and better align their interest to the Company's continued long-term success. The Plan permits the Company to grant to its employees, directors and advisors various types of restricted stock unit awards, performance share units, and stock appreciation rights. The maximum number of shares that may be issued under the Plan is 1,500,000 shares. As of August 31, 2015 the Company has approximately 1,397,482 shares available for future issuance under the Plan. In addition, certain share-based awards are outstanding under the Company's Amended and Restated 2005 Long Term Incentive Plan, which was replaced by the Plan.

Restricted Stock Unit Awards

Restricted stock unit awards are valued at the market price of our common stock on the grant date. These awards have either a three year pro-rata or cliff vesting schedule but may vest early in accordance with the Plan’s accelerated vesting provisions.

The activity of our non-vested restricted stock unit awards for the six month period ended August 31, 2015 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 28, 2015	77,446	$41.31
Granted	47,113	46.65
Vested	(12,362)	27.97
Forfeited	(2,137)	44.15
Non-Vested Balance as of August 31, 2015	110,060	$45.04

Performance Share Unit Awards

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

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set forth in the agreement. For the six month period ended August 31, 2015, the Company issued 28,553 performance share unit awards with a weighted average grant date fair value of $46.65.

Stock Appreciation Rights

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

A summary of the Company’s stock appreciation rights activity for the six month period ended August 31, 2015 is as follows:

	SAR’s	Weighted Average Exercise Price
Outstanding as of February 28, 2015	376,982	$31.27
Granted	—	—
Exercised	(18,205)	24.34
Forfeited	(4,078)	44.42
Outstanding as of August 31, 2015	354,699	$31.48
Exercisable as of August 31, 2015	245,779	$25.75

The average remaining contractual term for those stock appreciation rights outstanding at August 31, 2015 is 3.63 years, with an aggregate intrinsic value of $17.9 million. The average remaining contractual terms for those stock appreciation rights that are exercisable as of August 31, 2015 is 2.88 years, with an aggregate intrinsic value of $12.4 million.

Employee Stock Purchase Plan

The Company also has an employee stock purchase plan, which allows employees of the Company to purchase common stock of the Company through accumulated payroll deductions. Offerings under this plan have a duration of 24 months (the "offering period"). On the first day of an offering period (the “enrollment date”) the participant is granted the option to purchase shares on each exercise date at the lower of 85% of the market value of a share of our common stock on the enrollment date or the exercise date. The participant’s right to purchase common stock under the plan is restricted to no more than $25,000 per calendar year and the participant may not purchase more than 5,000 shares during any offering period. Participants may terminate their interest in a given offering or a given exercise period by withdrawing all of their accumulated payroll deductions at any time prior to the end of the offering period. The fair value of the estimated number of shares to be issued under each offering is determined using the Black-Scholes option pricing model. For the six month period ended August 31, 2015, the Company issued 29,995 shares under the Employee Stock Purchase Plan.

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

Period ended August 31,	2015	2014
	(In thousands)	
Compensation expense	$2,523	$2,638
Income tax benefits	$883	$923

Unrecognized compensation cost related to restricted stock units, performance share unit awards, stock appreciation rights, and the employee stock purchase plan at August 31, 2015 totals $6.2 million.

The Company’s policy is to issue shares required under these plans from the Company’s authorized but unissued shares and treasury shares.

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4. Segments

We have two operating segments, Energy and Galvanizing Services, as defined in our Annual Report on Form 10-K for the year ended February 28, 2015. Information regarding operations and assets by segment is as follows:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2015	2014	2015	2014
	(Unaudited) (In thousands)			
Net Sales:				
Energy	$110,777	$100,560	$247,780	$231,081
Galvanizing Services	103,469	92,856	195,354	178,461
Total net sales	214,246	193,416	443,134	409,542
Operating Income (loss):				
Energy	9,005	(1,241)	26,961	12,416
Galvanizing Services	25,331	23,059	47,425	45,069
Corporate	(7,917)	1,138	(15,082)	(6,681)
Total operating income	26,419	22,956	59,304	50,804
Interest expense	4,023	4,224	7,869	8,432
Net (gain) loss on sale of property, plant and equipment and insurance proceeds	(25)	3	(449)	(23)
Other (income) expense, net	547	17	855	(14)
Income before income taxes	$21,874	$18,712	$51,029	$42,409
Total Assets:				
Energy	$527,769	$530,535	$527,769	$530,535
Galvanizing Services	431,494	387,393	431,494	387,393
Corporate	24,784	51,860	24,784	51,860
	$984,047	$969,788	$984,047	$969,788

Financial Information About Geographical Areas

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2015	2014	2015	2014
	(Unaudited) (In thousands)			
Net Sales:				
U.S.	$163,664	$142,385	$345,934	$318,824
International	50,928	51,031	97,546	90,718
Eliminations	(346)	—	(346)	—
Total Net Sales	$214,246	$193,416	$443,134	$409,542

	August 31, 2015	February 28, 2015
Property, Plant and Equipment, Net:		
U.S.	202,515	173,712
Canada	18,260	20,289
Other Countries	2,798	2,582
	$223,573	$196,583

Total Property, Plant and Equipment, Net

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5. Warranty Reserves

A reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products and is classified within accrued liabilities on the consolidated balance sheet. Management periodically reviews the reserves and makes adjustments accordingly. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The following table shows changes in the warranty reserves since the end of fiscal 2015:

	Warranty Reserve (unaudited) (in thousands)
Balance at February 28, 2015	$2,287
Warranty costs incurred	(1,642)
Additions charged to income	1,792
Balance at August 31, 2015	$2,437

6. Realignment Costs

As part of AZZ's ongoing efforts to optimize cost and effectiveness, during the second quarter of fiscal 2016, the Company reviewed its available capacity within the Energy segment and recorded additional realignment costs related to severance associated with consolidating capacity at various facilities. Additionally we reserved for the disposition and write off of certain fixed assets in connection with the capacity consolidation. The total cost related to the capacity consolidation is estimated to be $0.9 million. A total of $0.2 million of one-time severance costs and $0.2 million of costs for the disposition of certain fixed assets are included in Selling, General and Administrative Expenses. A total of $0.2 million of one-time severance costs and $0.3 million of costs for the disposition of certain fixed assets are included in Cost of Sales. The following table shows changes in the realignment accrual:

	Realignment Accrual (unaudited) (in thousands)
Realignment reserve balance as of February 28, 2015	$456
Realignment costs utilized	(491)
Additions to reserve	437
Realignment reserve balance as of August 31, 2015	$402

7. Acquisitions

On June 5, 2015, we completed the acquisition of substantially all the assets of US Galvanizing, LLC, a provider of steel corrosion coating services and a wholly-owned subsidiary of Trinity Industries, Inc. The acquisition of the US Galvanizing, LLC assets includes six galvanizing facilities located in Hurst, Texas; Kennedale, Texas; Big Spring, Texas; San Antonio, Texas; Morgan City, Louisiana; and Kosciusko, Mississippi. Additionally, the transaction includes Texas Welded Wire, a secondary business integrated within US Galvanizing's Hurst, Texas facility.

As part of this acquisition, AZZ and Meyer Steel Structures, a leading manufacturer of steel structures for electricity transmission and distribution and a wholly-owned subsidiary of Trinity Industries, Inc., have entered into a long-term supply and service agreement where AZZ will be the primary supplier of hot-dip galvanizing services for Meyer Steel Structures. US Galvanizing LLC was acquired to expand AZZ's existing geographic footprint in North America.

The purchase agreement provided for AZZ's acquisition of all the assets, excluding prepaid assets, of US Galvanizing, LLC along with trade accounts payable in exchange for cash consideration.

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8. Subsequent Events

None.

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

FORWARD LOOKING STATEMENTS

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the political stability and economic conditions of the various markets that AZZ serves, foreign and domestic, customer requested delays of shipments, acquisition opportunities, currency exchange rates, adequacy of financing, and availability of experienced management and employees to implement AZZ's continued growth strategy; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the continuing economic volatility in the U.S. and other markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. AZZ has provided additional information regarding risks associated with the business in AZZ's Annual Report on Form 10-K for the fiscal year ended February 28, 2015 and other filings with the SEC, available for viewing on AZZ's website at www.azz.com and on the SEC's website at www.sec.gov.

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

The following discussion should be read in conjunction with management's discussion and analysis contained in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015, and with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

We have two operating segments, Energy and Galvanizing Services, as defined in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015. Management believes that the most meaningful analysis of our results of operations is to analyze our performance by segment. We use revenue and operating income by segment to evaluate our segments. Segment operating income consists of net sales less cost of sales and selling, general and administrative expenses that are specifically identifiable to a segment. For a reconciliation of segment operating income to pretax income, see Note 4 to our quarterly consolidated financial statements included in this Quarterly Report on Form 10-Q.

Orders and Backlog

Our entire backlog relates to our Energy Segment. Our backlog was $338.1 million as of August 31, 2015, an increase of $5.6 million, or 1.7%, as compared to $332.6 million as of February 28, 2015. For the three months ended August 31, 2015, our book-to-ship ratio decreased slightly from 1.10 to 1 to 1.09 to 1 when compared to same period of Fiscal 2015, however, incoming orders increased $20.1 million, or 9.4%, for the quarter as compared to the same period in fiscal 2015. The table below includes the progression of the backlog:

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Backlog Table
(in thousands, except book to ship ratios)(unaudited)

	Period Ended		Period Ended	
Backlog	2/28/2015	$332,595	02/28/2014	$325,013
Bookings		215,156		200,158
Shipments		228,888		216,126
Backlog	5/31/2015	318,863	5/31/2014	309,045
Book to Ship Ratio		0.94		0.93
Bookings		233,532		213,433
Shipments		214,246		193,416
Backlog	8/31/2015	338,149	8/31/2014	329,062
Book to Ship Ratio		1.09		1.10

Segment Revenues

For the three and six month periods ended August 31, 2015, consolidated revenues increased $20.8 million, or 10.8%, and $33.6 million, or 8.2%, respectively, as compared to the same periods in fiscal 2015.

The following table reflects the breakdown of revenue by segment:

	Three Months Ended		Six Months Ended	
	8/31/2015	8/31/2014	8/31/2015	8/31/2014
	(In thousands)(unaudited)			
Revenue:				
Energy	$110,777	$100,560	$247,780	$231,081
Galvanizing Services	103,469	92,856	195,354	178,461
Total Revenue	$214,246	$193,416	$443,134	$409,542

Revenues for the Energy Segment increased 10.2% for the three months ended August 31, 2015, to $110.8 million as compared to the same period in fiscal 2015. This increase was primarily attributable to a large project shipment within our nuclear service business. Revenues increased 7.2% to $247.8 million for the six months ended August 31, 2015 as compared to the same period in fiscal 2015. This increase was attributable to the shipment mentioned above as well as greater penetration and growth in specialty welding services for petroleum refining both domestically and internationally. The introduction of new technology continues to deliver traction in the market place and drive growth in this segment.

Revenues for the Galvanizing Services Segment increased 11.4% for the three months ended August 31, 2015, to $103.5 million as compared to the same period in fiscal 2015. Revenues increased 9.5% to $195.4 million for the six months ended August 31, 2015 as compared to the same period in fiscal 2015. These increases for the three and six month periods was attributable to higher volumes of processed steel primarily from the acquisition of U.S. Galvanizing, coupled with increased activity within the solar, electrical utility, and original equipment manufacturer markets.

Segment Operating Income

Operating income for the Energy Segment increased by $10.2 million, or 825.5%, for the three months ended August 31, 2015 as compared to the same period in fiscal 2015. The increase was attributable to the increased revenue, improved pricing and execution overall. The second quarter of Fiscal 2016 included $0.7 million of net realignment charges. The second quarter of Fiscal 2015 also included $2.6 million of realignment charges and $5.2 million in project cost overruns. Excluding these items, operating income increased $3.2 million or 48.5%. Operating income increased for the six month period ended August 31, 2015 by $14.5 million or 117.2% as compared to the same period in fiscal 2015. This increase was attributable to the same factors mentioned for the quarterly comparison above. Excluding the realignment charge and cost overruns, operating income increased for the six month period ended August 31, 2015 by $7.4 million or 37.0%.

Operating income for the Galvanizing Services Segment increased by $2.3 million, or 9.9%, for the three months ended August 31, 2015 as compared to the same period in fiscal 2015. This increase was attributable to the increased sales volume discussed above which was partially offset by higher zinc costs. The second quarter in Fiscal 2015 also included $0.8 million of realignment charges. Excluding this item, operating income increased $1.4 million or 6.0%. Operating income increased for the six months ended August 31, 2015 by $2.4 million or 5.2% as compared to the same period in fiscal 2015. This increase was attributable to the increased sales volumes noted above, partially offset by higher zinc costs. The same period in Fiscal 2015 included $2.3 million of business interruption proceeds and the previously mentioned realignment costs. Excluding these items, operating income increased $3.9 million or 9.0%.

Corporate expenses increased by $9.1 million, or 795.2%, and $8.4 million, or 125.7% for the three and six month periods ended August 31, 2015, respectively, as compared to the same period in fiscal 2015. The second quarter of Fiscal 2016 included a $0.3 million reversal of realignment charges. The second quarter of Fiscal 2015 included the reversal of the contingent liability associated with the acquisition Nuclear Logistics, Inc. in the amount of $9.1 million which was partially offset by $0.5 million of realignment charges. Excluding these items, corporate expenses increased $0.7 million or 9.7% for the three months ended August 31, 2015 compared to the same period in Fiscal 2015, and were flat for the six months ended August 31, 2015 compared to the same period in Fiscal 2015.

Interest

Interest expense for the three and six month periods ended August 31, 2015 was $4.0 million and $7.9 million, respectively. The slight decrease in interest expense for the three and six month periods ended August 31, 2015 in comparison to the same respective periods in the prior year was the result of lower average outstanding debt balance. As of August 31, 2015, we had outstanding debt of $360.2 million, compared to $394.4 million outstanding as of August 31, 2014. Our debt to equity ratio was 0.80 to 1 as of August 31, 2015, compared to 0.98 to 1 as of August 31, 2014.

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

For the three months ended August 31, 2015 and 2014, the Company recorded an insignificant gain due to sales from miscellaneous equipment. For the six months ended August 31, 2015, the Company recorded a net gain of $0.4 million as a result of insurance proceeds received along with a gain on the sale of our St. Catharines property located in Ontario, Canada. For the six months ended August 31, 2014, the Company recorded an insignificant loss due to sales from miscellaneous equipment.

Other (Income) Expense

For the three and six month periods ended August 31, 2015, the amounts in other (income) expense were largely attributable to foreign exchange losses. For the three and six month periods ended August 31, 2014, the amounts recorded to other (income) expense were insignificant.

Income Taxes

The provision for income taxes reflects an effective tax rate of 21.2% and 27.2% for the three and six month periods ended August 31, 2015, as compared to 26.4% and 32.3% for the same respective periods in fiscal 2015. The decrease in rate is primarily attributable to capturing certain state tax benefits.

LIQUIDITY AND CAPITAL RESOURCES

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

For the six months ended August 31, 2015, net cash provided by operating activities was $54.9 million, net cash used in investing activities was $70.9 million, and net cash provided by financing activities was $14.6 million, resulting in a net decrease in cash and cash equivalents of $2.3 million. In comparison to fiscal 2015, the results in the statement of cash flows for the six months ended August 31, 2015, were attributable to an increase in net income, large fluctuations in accounts payable, accounts receivable and other accrued liabilities, the acquisition of US Galvanizing, LLC, and increased borrowings under our Credit Agreement.

Our working capital was $157.8 million as of August 31, 2015, as compared to $159.6 million at August 31, 2014. The change in working capital for the compared periods is mainly attributable to an increase in costs and estimated earnings in excess of billings on uncompleted contracts which is partially offset by an increase in accounts payable and various other current liabilities.

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

16

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

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

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

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

As of August 31, 2015, we had $130.0 million of outstanding debt against the revolving credit facility provided and letters of credit outstanding in the amount of $16.6 million, which left approximately $78.4 million of additional credit available under the Credit Agreement.

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

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

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

As of August 31, 2015, the Company was in compliance with all of its debt covenants.

Historically, we have not experienced a significant impact on our operations from increases in general inflation other than for specific commodities. We have exposure to commodity price increases in both segments of our business, primarily copper, aluminum, steel and nickel based alloys in the Energy Segment and zinc and natural gas in the Galvanizing Services Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum, steel and nickel based alloys, when market conditions allow and through fixed cost contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing process and through increases in prices where competitively feasible. Many economists predict increased inflation in coming years due to U.S. and international monetary policies, and there is no assurance that inflation will not impact our business in the future.

OFF BALANCE SHEET TRANSACTIONS AND RELATED MATTERS

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

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CONTRACTUAL COMMITMENTS

Leases

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

Commodity pricing

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

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

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

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

Other

At August 31, 2015, we had outstanding letters of credit in the amount of $16.6 million. These letters of credit are issued, in lieu of performance and bid bonds, to some of our customers to cover any potential warranty costs that the customer might incur.

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

	Operating Leases	Long-Term Debt	Interest	Total
Fiscal:	(In thousands)			
2016	$3,704	$4,220	$6,555	$14,479
2017	6,743	23,192	12,963	42,898
2018	4,622	16,629	11,926	33,177
2019	3,346	191,161	7,948	202,455
2020	1,255	—	6,775	8,030
Thereafter	2,831	125,000	6,775	134,606
Total	$22,501	$360,202	$52,942	$435,645

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

As of August 31, 2015, the Company had exposure to foreign currency exchange rates related to our operations in Canada, China, Brazil, Poland, and the Netherlands.

We do not believe that a hypothetical change of 10% of the interest rate or currency exchange rate that are currently in effect or a change of 10% of commodity prices would have a significant adverse effect on our results of operations, financial position, or

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

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Item 4. Controls and Procedures

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

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 28, 2015.

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

The Company's board of directors has authorized the repurchase of 2,500,000 shares of the Company's outstanding common stock, par value $1 per share. The decision to repurchase shares under this share repurchase program will be based on market conditions and other factors at the time of the purchase. Repurchases under the share repurchase program will be made through open market purchases or private transactions, in accordance with applicable federal securities laws, including Rule 10b-18 under the Exchange Act.

As of August 31, 2015, no shares have been repurchased by the Company under this share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits Required by Item 601 of Regulation S-K.

A list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Index to Exhibits on page 23, which immediately precedes such exhibits.

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SIGNATURES

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

		AZZ Inc. (Registrant)
DATE: September 29, 2015	By:	/s/ Paul W. Fehlman Paul Fehlman Senior Vice President, Chief Financial Officer

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EXHIBIT INDEX

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

101.PRE	XBRL Taxonomy Extension Presentation Linkbase