ENTEGRIS INC
Form 10-K
February 24, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number 001-32598

ENTEGRIS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-1941551**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

129 Concord Road, Billerica, Massachusetts 01821

(Address of principal executive offices and zip code)

(978) 436-6500

(Registrant s telephone number, including area code)

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

Title of Class	Name of Exchange on which Registered
Common Stock, $0.01 Par Value	The Nasdaq Global Select Market

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large Accelerated Filer x	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 x

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the last sale price of the Common Stock on July 1, 2011, the last business day of registrant s most recently completed second fiscal quarter, was $1,396,000,000. Shares held by each officer and director of the registrant and by each person who owned 10 percent or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

As of February 9, 2012, 136,112,160 shares of the registrant s Common Stock were outstanding.

Documents Incorporated by Reference

Portions of the registrant s Definitive Proxy Statement for its 2012 Annual Meeting of Stockholders scheduled to be held on May 2, 2012, or the 2012 Proxy Statement, which will be filed with the Securities and Exchange Commission, or SEC, not later than 120 days after December 31, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the 2012 Proxy Statement expressly incorporated into this Annual Report on Form 10-K by reference, such document shall not be deemed filed as part of this Annual Report on Form 10-K.

Table of Contents

ENTEGRIS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Table of Contents

PART I

Item 1. Business.

THE COMPANY

Entegris is a worldwide developer, manufacturer and supplier of products and materials used in processing and manufacturing in the semiconductor and other high-technology industries. For the semiconductor industry, our products maintain the purity and integrity of critical materials used by the semiconductor manufacturing process. For other high-technology applications, our products and materials are used to manufacture flat panel displays, light emitting diodes or LEDs , high-purity chemicals, photoresists, fuel cells, solar cells, gas lasers, optical and magnetic storage devices, fiber optic cables and critical components for aerospace, glass manufacturing and biomedical applications. We sell our products worldwide through a direct sales force and through selected distributors.

The Company was incorporated in Delaware in March 2005 in connection with a strategic merger of equals transaction between Entegris, Inc., a Minnesota corporation (Entegris Minnesota), and Mykrolis Corporation, a Delaware corporation (Mykrolis). See OUR HISTORY below. On August 11, 2008, we acquired Poco Graphite, Inc. (Poco Graphite), a privately held company based in Decatur, Texas. The addition of Poco Graphite both augmented our base of business in the semiconductor industry and expanded our materials science capabilities to include graphite and silicon carbide and added a consumable product line made from those materials to our portfolio of products.

We offer a diverse product portfolio that includes more than 17,000 standard and customized products that we believe provide the most comprehensive offering of products and services to maintain the purity and integrity of critical materials used by the semiconductor and other high-technology industries. Our products include both unit driven and capital expense driven products. Unit-driven and consumable products are consumed or exhausted during the customer s manufacturing process and rely on the level of semiconductor and other manufacturing activity to drive growth. Capital expense driven products rely on the expansion of manufacturing capacity to drive growth. Our unit-driven and consumable product class includes membrane-based liquid filters and housings, metal-based gas filters, resin-based gas purifiers, wafer shippers, disk-shipping containers and test assembly and packaging products and consumable graphite and silicon carbide components used in plasma etch, ion implant and chemical vapor deposition (CVD) processes in semiconductor manufacturing. Our capital expense-driven products include our components, systems and subsystems that use electro-mechanical, pressure differential and related technologies, to permit semiconductor and other electronics manufacturers to monitor and control the flow and condition of process liquids used in these manufacturing processes, and our process carriers that protect the integrity of in-process wafers. Unit-driven and consumable products, including service revenue, accounted for approximately 63%, 63%, and 70% of our net sales for fiscal years 2011, 2010 and 2009, respectively, and capital expense-driven products accounted for approximately 37%, 37% and 30% of our net sales for the fiscal years 2011, 2010 and 2009, respectively.

Our Internet address is *www.entegris.com*. On this web site, under the Investors Financial Information SEC Filings section, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC): our annual, quarterly, and current reports on Forms 10-K, 10-Q, and 8-K; our proxy statements; and any amendments to those reports or statements. All such filings are available on our web site free of charge. The SEC also maintains a web site (*www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The content on our website, and any other website, as referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

SEMICONDUCTOR INDUSTRY BACKGROUND

Semiconductors, or integrated circuits, are the building blocks of today s electronics and the backbone of the information age. The market for semiconductors has grown significantly over past decades. This trend is

Table of Contents

expected to continue due to increased usage of and reliance on the Internet through expanding channels, and the continuing demand for applications in data processing, wireless communications, broadband infrastructure, personal computers, handheld electronic devices and other consumer electronics.

The manufacture of semiconductors is a highly complex process that consists of two principal segments: front-end processes and back-end processes. The front-end process begins with the delivery of raw silicon wafers from wafer manufacturers to semiconductor manufacturers and requires hundreds of highly complex and sensitive manufacturing steps, during which a variety of materials, including chemicals, gases and metals are repeatedly applied to the silicon wafer to build the integrated circuits on the wafer surface. We offer products, such as liquid and gas filters and purifiers, fluid and gas handling components and wafer shippers and process carriers, to purify these materials and to support each of the primary front-end process steps, which are listed below, as well as products to transport in-process wafers between each of these steps.

Deposition. Deposition refers to placing layers of insulating or conductive materials on a wafer surface in thin films that make up the circuit elements of semiconductor devices. The two main deposition processes are physical vapor deposition, where a thin film is deposited on a wafer surface in a low-pressure gas environment, and CVD, where a thin film is deposited on a wafer surface using a gas medium and a chemical bonding process. In addition, electro-plating technology is utilized for the deposition of low resistance conductive materials such as copper. The control of uniformity and thickness of these films through our filtration and purification products, which purify the fluids and materials used during the process and is critical to the performance of the semiconductor circuit and, consequently, the manufacturing yield. In addition, our graphite chamber liners and shower heads are critical expendable components used in the CVD chamber.

Chemical Mechanical Planarization (CMP). CMP flattens, or planarizes, the topography of the surface of the wafer after deposition to permit the patterning of small features on the resulting smooth surface by the photolithography process. Semiconductor manufacturers need our filtration and purification systems to filter the liquid slurries, which are solutions containing abrasive particles in a chemical mixture, to remove oversized particles and contaminants that can cause defects on a wafer s surface, while not affecting the functioning of the abrasive particles in the liquid slurries. Our filtration and purification systems thus enable semiconductor manufacturers to maintain acceptable manufacturing yields through the CMP process. In addition, manufacturers use our consumable polyvinyl alcohol (PVA) roller brushes to clean the wafer after completion of the CMP process to prepare the wafer for subsequent operations.

Photolithography. Photolithography is the process step that defines the patterns of the circuits to be built on the chip. Before photolithography, a wafer is pre-coated with photoresist, a light-sensitive film composed of ultra-high purity chemicals in liquid form. The photoresist is exposed to specific forms of radiation, such as ultraviolet light, electrons or x-rays, to form patterns that eventually become the circuitry on the chip. This process is repeated many times, using different patterns and interconnects between layers to form the complex, multi-layer circuitry on a semiconductor chip. As device geometries decrease and wafer sizes increase, it is even more critical that these photoresists are dispensed onto the chip with accurate thickness and uniformity, as well as with low levels of contamination, and that the process gases are free of micro-contamination so that manufacturers can achieve acceptable yields in the manufacturing process. Our liquid filtration and liquid dispense systems play a critical role in assuring the pure, accurate and uniform dispense of photoresists onto the wafer. In addition, our gas micro-contamination systems eliminate airborne amine contaminants that can disrupt effective photolithography processes.

Etch and Resist Strip. Etch is the process of selectively removing precise areas of thin films that have been deposited on the surface of a wafer. The hardened photoresist protects the remaining material that makes up the circuits. During etch, specific areas of the film not covered by photoresist are removed to leave a desired circuit pattern. Similarly, resist strip is a process of removing the photoresist material from the wafer after the desired pattern has been etched on the wafer. Emerging advanced etch and resist strip applications require precisely

Table of Contents

controlled gas chemistries and flow rates in order to achieve precise etch and resist strip characteristics. Our gas filters and purifiers help assure the purity of these process gas streams, and our consumable graphite components deliver, baffle and confine these process gases during the etch process.

Ion Implant. Ion implantation provides a means for introducing impurities into the silicon crystal, typically into selected areas defined by the photolithographic process. This selective implanting of ions into defined areas creates electrically conductive areas that form the transistors of the integrated circuits. Ion implanters have the ability to implant selected elements into the silicon wafers at precise locations and depths by bombarding the silicon surface with a precisely controlled beam of electrically charged ions of specific atomic mass and energy. These ions are embedded into the silicon crystal structure, changing the electrical properties of the silicon. The precision of ion implantation techniques permits customers to achieve the necessary control of this doping process to construct up to 500 billion transistors of uniform characteristics on a 300mm wafer. Since these transistors are the starting point of all subsequent process steps, repeatability, uniformity and yield are extremely important. Our consumable graphite components as well as our proprietary low temperature plasma coating process for core components are critical elements of ion implantation equipment.

Wet Cleaning. Ultra-high purity chemicals and photoresists of precise composition are used to clean the wafers, to pattern circuit images and to remove photoresists after etch. Before processes such as photoresist coating, thin film deposition, ion implantation, diffusion and oxidation, and after processes such as ion implantation and etch, the photoresists must be stripped off, and the wafer cleaned in multiple steps of chemical processes. To maintain manufacturing yields and avoid defective products, these chemicals must be maintained at very high purity levels without the presence of foreign material such as particles, ions or organic contaminants. Our liquid filters and purifiers are used to assure the purity of these chemicals.

Our wafer and reticle carriers are high-purity micro-environments which carry wafers between each of the above process steps, protecting them from damage and contamination during these transport operations. Our fluid handling components assure the delivery of pure liquid chemicals to each of these process steps. Front-end wafer processing can involve hundreds of steps and take several weeks. As a result, a batch of 25 fully processed wafers, the standard number of wafers that can be transported in one of our 200 mm and 300 mm products, can be worth several million dollars. Since significant value is added to the wafer during each successive manufacturing step, it is essential that the wafer be handled carefully and precisely to minimize damage. Thus, in the case of wafer carriers, precise wafer positioning, highly reliable and predictable cassette interface dimensions and advanced materials are crucial. The failure to prevent damage to wafers can severely impact integrated circuit performance, render an integrated circuit inoperable or disrupt manufacturing operations. Our products enable semiconductor manufacturers to: minimize contamination (semiconductor processing is now so sensitive that ionic contamination in certain processing chemicals is measured in parts per trillion); protect semiconductor devices from electrostatic discharge and shock; avoid process interruptions; prevent damage or abrasion to wafers and materials during automated processing caused by contact with other materials or equipment; prevent damage due to abrasion or vibration of work-in-process and finished goods during transportation to and from customer and supplier facilities; and eliminate the dangers associated with handling toxic chemicals.

Once the front-end manufacturing process is completed, finished wafers are transferred to back-end manufacturers or assemblers. The back-end semiconductor manufacturing process consists of test, assembly and packaging of finished wafers into integrated circuits. Our wafer shippers, wafer and reticle carriers and integrated circuit trays facilitate the storage, transport, processing and protection of wafers through these front-end and back-end manufacturing steps.

Semiconductor manufacturing has become increasingly complex in recent years as new technologies have been introduced to enhance device performance and as larger wafer sizes have been introduced to increase production efficiencies. This increasing complexity of semiconductor devices has resulted in a number of challenges including the need for more complex, higher-precision liquid and gas delivery, measurement, control and purification systems and subsystems in the front-end manufacturing processes in order to improve

Table of Contents

time-to-market, reduce manufacturing costs, improve production quality and enhance product reliability. To address these challenges, semiconductor equipment companies and device manufacturers are outsourcing the design and manufacture of liquid delivery, measurement, control and purification systems, subsystems, components, and consumables to us and to other well-established subsystem and component companies that have worldwide presence and leading technologies. The design and performance of those liquid delivery systems, subsystems, components and consumables are critical to the front-end semiconductor manufacturing process because they directly affect cost of ownership and manufacturing yields. We continually seek opportunities to work with our customers to address these challenges.

Also in response to these challenges and to achieve continued productivity gains, semiconductor manufacturers have become increasingly focused on materials management solutions that enable them to safely store, handle, process and transport critical materials throughout the manufacturing process to minimize the potential for damage or degradation to their materials and to protect their investment in processed wafers. The need for efficient and reliable materials management is particularly important as new materials are introduced. Further processing wafers in higher manufacturing technology nodes, larger wafers and finer line widths is more costly and more complex than for smaller wafer sizes and larger line widths. In addition, new materials and circuit shrinkage create new contamination and material compatibility risks, rendering larger wafers more vulnerable to damage or contamination. We believe that these challenges provide opportunities for our advanced purification, dispense, shipping, transport, process and storage products and systems. We also seek to bring our advanced polymer engineering expertise and advanced tool design capabilities to bear on these challenges to provide our customers with innovative materials-based solutions.

Many of the processes used to manufacture semiconductors are also used to manufacture photovoltaic cells, LEDs, flat panel displays and magnetic storage devices resulting in the need for similar filtration, purification, control and measurement capabilities. We seek to leverage our products and expertise in serving semiconductor applications to address these important market opportunities.

OUR BUSINESS STRATEGY

Our objective is to be a leading global provider of innovative products and solutions for purifying, protecting and transporting critical materials used in processing and manufacturing in the semiconductor and other high-technology industries. We intend to build upon our position as a worldwide developer, manufacturer and supplier of liquid delivery systems, components and consumables used by semiconductor and other electronic device manufacturers and upon our expertise in advanced specialty materials to grow our business in these and other high value-added manufacturing process markets. Our strategy includes the following key elements:

Comprehensive and Diverse Product Offerings. The semiconductor manufacturing industry is driven by rapid technological changes and intense competition. We believe that semiconductor manufacturers are seeking process control suppliers who can provide a broad range of reliable, flexible and cost-effective products, as well as the technological and application design expertise necessary to deliver effective solutions. Our comprehensive product offering enables us to meet a broad range of customer needs and provide a single source of flexible product offerings for semiconductor device and capital equipment manufacturers as they seek to consolidate their supplier relationships to a smaller select group. In addition, we believe manufacturers of semiconductor tools are looking to their suppliers for subsystems that provide more integrated functionality and that seamlessly communicate with other equipment. We believe our offering of consumables and equipment, as well as our ability to integrate them, allows us to provide advanced subsystems.

Diversified Revenue Stream. We target a diversified revenue stream by balancing our sales of wafer transport and process carriers as well as component and subsystem equipment products with sales of our unit-driven and consumable products. Our unit-driven and consumable products provide a relatively more stable and recurring source of revenue in this cyclical industry. Our capital expense-driven products, which are generally dependent upon such factors as the construction and expansion of semiconductor manufacturing facilities and the

Table of Contents

retrofitting and renovation of existing semiconductor facilities, position us to benefit from increases in capital spending that are typically more subject to the volatility of industry cycles. In addition, we are applying our products and technologies to adjacent markets such as solar, aerospace, industrial and life science to generate revenue independent of the cyclicality of the semiconductor markets.

Technology Leadership. With the emergence of smaller and more powerful semiconductor devices, and the deployment of new materials and processes to produce them, we believe there is a need for greater materials management within the semiconductor fabrication process. We seek to extend our technology by developing advanced products that address more stringent requirements for greater purification, protection and transport of high value-added materials and for contamination control, fluid delivery and monitoring, and system integration. We have continuously improved our products as our customers needs have evolved. For example, we have developed proprietary materials blends for use in our wafer handling product family that address the contamination concerns of advanced semiconductor processing for below 32 nanometers; we have also developed advanced 300 mm wafer handling products utilizing advanced materials and have been actively developing products for handling 450 mm wafers, the next generation of semiconductor wafers. We have also expanded upon our proprietary two-stage dispense technology with integrated filtration for photoresist delivery, where the photoresist is filtered through one pump and precisely dispensed through a second pump at a different flow rate to reduce defects on wafers.

Strong Customer Base. We have established ongoing relationships with many leading original equipment manufacturers (OEMs) and materials suppliers in our key markets. These industry relationships have provided us with the opportunity for significant collaboration with our customers at the product design stage, which has facilitated our ability to introduce new products and applications that meet our customers needs. For example, we work with our key customers at the pre-design and design stages to identify and respond to their requests for current and future generations of products. We target opportunities to offer new technologies in emerging applications, such as copper plating, chemical mechanical planarization, wet-dry cleaning systems and photolithography. We believe that our large customer base will continue to be an important source of new product development opportunities.

Global Presence. We have established a global infrastructure of design, manufacturing, distribution, service and support facilities to meet the needs of our customers. As semiconductor and other electronic device manufacturers have become increasingly global, they have required that suppliers offer comprehensive local repair and customer support services. In response to this trend we are expanding our operations in Taiwan to provide manufacturing capabilities to support our important customers in the region, we have previously established sales and service offices in China in anticipation of a growing semiconductor manufacturing base in that region and we have transferred customer support and logistics activities to local regions in order to enhance our global customer contact and awareness. We maintain our customer relationships through a combination of direct sales and support personnel and selected independent sales representatives and distributors in Asia, Europe and the Middle East.

Ancillary Markets. We leverage our accumulated expertise in the semiconductor industry by developing products for applications that employ similar production processes that utilize materials integrity management, high-purity fluids and integrated dispense system technologies. Our products are used in manufacturing processes outside of the semiconductor industry, including the manufacturing of flat panel displays, fuel cell components, high-purity chemicals, photoresists, solar cells, gas lasers, optical and magnetic storage devices and fiberoptic cables. We plan to continue to identify and develop products that address materials management and advanced materials processing applications where fluid management plays a critical role. We believe that by utilizing our technology to provide manufacturing solutions across multiple industries, we are able to increase the total available market for our products and reduce, to an extent, our exposure to the cyclicality of any particular market.

Strategic Acquisitions, Partnerships and Related Transactions. We plan to pursue strategic acquisitions and business partnerships that enable us to address gaps in our product offerings, secure new customers, diversify into complementary product markets and broaden our technological capabilities and product offerings. Our

Table of Contents

acquisition of Poco Graphite in August of 2008 is an example of this strategy. Poco Graphite reinforces our presence in the semiconductor industry by providing a group of new products critical to front-end manufacturing processes based on a materials science that we did not previously have in our technology portfolio. Further, as the dynamics of the markets that we serve shift, we will reevaluate the ability of our existing businesses to provide value-added solutions to those markets in a manner that contributes to achieving our objectives; in the event that we conclude that a business is not able to do this, we expect to restructure or replace that business. The sale of our cleaning equipment business in 2008 is an example of this strategy. Finally, we are continuously evaluating opportunities for strategic alliances and joint development efforts with key customers and other industry leaders.

Our Segments

We design, manufacture and market our products through three business segments: **(i)** our contamination control solutions segment, which offers a wide range of products that purify, monitor and deliver critical liquids and gases to the semiconductor manufacturing process and similar manufacturing processes, **(ii)** our microenvironments segment, which offers products to preserve the integrity of wafers, reticles and electronic components at various stages of transport, processing and storage and **(iii)** our specialty materials segment, which offers materials, components and services to a wide range of customers in the semiconductor industry and in adjacent and unrelated industries. Each segment has dedicated manufacturing resources, and is composed of product-focused business units. Each product-focused business segment has its own dedicated marketing and engineering, research and development resources. There follows a detailed description of our three segments:

Contamination Control Solutions

Liquid Filtration Products: Liquid processing occurs during multiple manufacturing steps including photolithography, deposition, planarization and surface etching and cleaning. The fluids that are used include various mixtures of acids, bases, solvents, slurries and photochemicals, which in turn are used over a broad range of operating conditions, including temperatures from 5 degrees Celsius up to 180 degrees Celsius. The design and performance of our liquid filtration and purification products are critical to the semiconductor manufacturing process because they directly affect the manufacturing yield. Specially designed proprietary filters remove sub-micron sized particles and bubbles from the different fluid streams that are used in the manufacturing process. Some of our filters are constructed with ultra-high molecular weight polyethylene flat sheet membranes that offer improved bubble clearance and gel removal to prevent defects in the wafers that occur if these elements are not removed. Our low hold-up volume disposable filters, with flat sheet membranes, use our Connectology technology to allow filter changes in less than a minute, significantly faster than conventional filters, to reduce the amount of expensive chemicals lost each time a filter is changed and to minimize operator exposure to hazardous solvents and vapors during changeout.

Components and Systems. Chemicals spend most of their time in contact with fluid storage and management distribution systems, so it is critical for fluid storage and handling components to resist these chemicals and avoid contributing contaminants to the fluid stream. We offer chemical delivery products that allow the consistent and safe delivery of sophisticated chemicals from the chemical manufacturer to the point-of-use in the semiconductor fab. Most of these products are made from perfluoroalkoxy or PFA, a fluoropolymer resin widely used in the semiconductor industry because of its high purity and inertness to chemicals. The innovative design and reliable performance of our products and systems under the most stringent of process conditions has made us a leader in high-purity fluid transfer products and systems. Both semiconductor manufacturers and semiconductor OEMs use our chemical delivery products and systems. Our comprehensive product line provides our customers with a single-source provider for their chemical storage and management needs throughout the manufacturing process. Our chemical delivery products include valves, fittings, tubing, pipe, chemical containers, custom fabricated products and associated connection systems for high-purity chemical applications.

Table of Contents

Our proprietary photochemical filtration and dispense systems integrate our patented two-stage, filter device and valve control technologies. We believe that we offer the microelectronics industry the only dispense systems with integrated filtration capability and that our proprietary patented two-stage technology has a significant advantage over conventional single-stage technology. Our two-stage technology permits the filtering and dispense functions to operate independently so that filtering and dispensing of photochemicals can occur at different rates, reducing the differential pressure across the filter, conserving expensive photochemicals and resulting in reduced defects in wafers. As described above, we offer a line of proprietary filters specifically designed to efficiently connect with these systems. Our patented digital valve control technology improves chemical uniformity on wafers and improves ease of optimized system operation. In addition, our integrated high-precision liquid dispense systems enable uniform application of photoresists for the spin-coating process, where uniformity is measured in units of Angstroms, a tiny fraction of the thickness of a human hair.

We offer a wide variety of measurement and control products for high-purity and corrosive applications. For electronic measurement and control of liquids, we provide a complete line of pressure and flow measurement and control products as well as all-plastic capacitance sensors for leak detection, valve position, chemical level and other measurements. We also offer mechanical gauge pressure measurement products. In addition, we offer a line of consumable PVA roller brush products to clean the wafer following the chemical mechanical planarization process. Our unique Planarcore PVA roller brush is molded on the core to allow easy installation that reduces tool downtime and a dimensionally stable product that provides consistent wafer-to-wafer cleaning performance.

Gas Filtration Products. Our Wafergard®, ChamberGard and Waferpure® particle and molecular filtration products purify the gas entering the process chamber in order to eliminate system and wafer problems due to particulate, atmospheric and chemical contaminants. These filters are able to retain all particles 0.003 microns and larger. Our metal filters, such as stainless steel and nickel filters, reduce outgassing and improve corrosion resistance. Our Waferpure ® and Aeronex Gatekeeper® purifiers chemically react with and absorb contaminants, such as oxygen and water, to prevent contamination, and our ChamberGard vent diffusers reduce particle contamination and processing cycle times. We offer a wide variety of gas purification products to meet the stringent requirements of semiconductor processing. Our Aeronex Gas Purification Systems contain dual-resin beds, providing a continuous supply of purified gas without process interruption. These gas purification systems are capable of handling higher flow rates and longer duty cycles than cartridge purifiers. Our product line also includes filter housings and hybrid media chemical air filters which purify air entering tool enclosures and remove airborne molecular contaminants.

MICROENVIRONMENTS

Our microenvironment products fall into three sub-categories, wafer and reticle handling products, wafer shipping products and data storage products.

Wafer and Reticle Handling Products. We are a global producer of wafer and reticle handling products. We offer a wide variety of products that hold and position wafers as they travel between each piece of equipment used in the automated semiconductor manufacturing process. These specialized carriers provide precise wafer positioning, wafer protection and highly reliable and predictable cassette interfaces in automated fabs. Semiconductor manufacturers rely on our products to improve yields by protecting wafers from abrasion, degradation and contamination during the manufacturing process. We provide standard and customized products that meet a spectrum of industry standards and customers wafer handling needs including front opening unified pods or FOUPs , wafer transport and process carriers, standard mechanical interface or SMIF pods and work-in-process boxes. To meet our customers varying wafer processing and transport needs, we offer wafer carriers in a variety of materials, including advanced polymeric materials, and in sizes ranging from 100 mm through 300 mm as well as for experimental 450mm wafers.

We are also a global provider of mask and reticle handling products, including reticle SMIF pods for the protection of extremely valuable and contamination-sensitive lithography reticles. Through our Clarilite -branded product offerings, we are providing our customers with leading edge contamination control solutions.

Table of Contents

Wafer Shipping Products. We are a global provider of critical shipping products that preserve the integrity of raw silicon wafers as they are transported from wafer manufacturers to semiconductor manufacturers or finished wafers shipped to back end processors. We lead the market with our extensive, high-volume line of Ultrapak ® and Crystalpak ® products which are supplied to wafer manufacturers in a full range of sizes covering 100, 125, 150 and 200 mm wafers. We also offer a full-pitch, front-opening shipping box, or FOSB, for the transportation and automated interface of 300 mm wafers. We offer a complete shipping system, including both wafer shipping containers as well as secondary packaging that provides another level of protection for wafers. For experimental 450mm wafers, we offer a Single Wafer Shipper and a Multi-Application Carrier.

We currently offer outsourcing programs for wafer and device transportation and protection for both wafer manufacturing and wafer handling products. Our Wafercare ® and DeviceCare SM services include product cleaning, certified re-use services for shipping products, on-site and off-site product maintenance and optimization, and end-of-life recycling for our wafer, device and disk-handling products. Re-use services can be customized depending on the customer s needs to provide product cleaning, logistics, recovery, certification and supply solutions for our products.

Data Storage Products. We provide products and solutions to manage two critical sectors in the data storage market: magnetic disks and the read/write heads used to read and write today s higher density disks. Because both of these hard disk drive components are instrumental in the transition to more powerful storage solutions, we offer products that protect and maintain the integrity of these components during their processing, storage and shipment. Our product offerings for magnetic hard disk drives include process carriers, boxes, packages, tools and shippers for aluminum and other disk substrates. Our optical hard disk drive products include stamper cases, process carriers, boxes and glass master carriers. Our read/write head products include transport trays, carriers, handles, boxes, individual disk substrate packages and accessories.

Rapidly changing packaging strategies for semiconductor applications are creating new materials management challenges for back-end manufacturers. We offer chip and matrix trays as well as carriers for bare die handling and integrated circuits. Our materials management products are compatible with industry standards and available in a wide range of sizes with various feature sets. Our standard trays offer dimensional stability and permanent electrostatic discharge protection. Our trays also offer a number of features including custom designs to minimize die movement and contact; shelves and pedestals to minimize direct die contact, special pocket features to handle various surface finishes to eliminate die sticking; and other features for automated or manual die placement and removal. In addition, we support our product line with a full range of accessories to address specific needs such as static control, cleaning, chip washing and other related requirements.

Specialty Materials

Our specialty materials products fall into two sub-categories, Poco Graphite Products and Specialty Coating Products. These products all provide high-value materials science enabling solutions in the form of materials, components or services that provide corrosion, high temperature, wear and chemical resistance, electrical and thermal conductivity and biocompatibility to a wide range of customers both within the semiconductor industry and in adjacent and unrelated industries.

Poco Graphite Products. These products are made from specialized graphite or silicon carbide. Our Poco Graphite products sold to the semiconductor industry are used for critical components for semiconductor manufacturing equipment at various stages of the semiconductor manufacturing process including CVD, where our expendable graphite chamber liners and shower heads are critical components used in the CVD chamber; dry or plasma etch, where our consumable graphite components deliver, baffle and confine the process gases during the etch process; and ion implant, where our consumable graphite components are critical elements of ion implantation equipment. In addition, our Poco Graphite high-quality graphite is used to make precision consumable electrodes for electrical discharge machining, a non-contact precision thermoelectric machining process for hard and exotic metals and other materials. Poco Graphite also manufactures a number of graphite hot

Table of Contents

glass contact materials for use in the manufacture of glass containers. Finally, Poco Graphite manufactures a number of graphite consumable products for various industrial applications including bushings and thrust washers for aerospace applications, substrates for industrial print heads, components for scan heads in industrial optical applications, cathodes for fuel cells and materials to manufacturers of artificial heart valves for human implantation.

Specialty Coating Products. We offer a variety of high-performance specialty coatings for critical components used in semiconductor and other high-technology manufacturing operations. These components, often in highly complex geometries, are coated by means of a proprietary low-temperature, plasma-assisted CVD process to provide corrosion and abrasion resistance and desired conductivity and hydrophobicity properties. We also provide complex assemblies such as electrostatic chucks for ion implant equipment, where our coatings prevent contamination of the process. Our coatings are also used in other high-technology applications such as aerospace optical components.

Worldwide Applications Development and Field Support Capabilities

We provide strong technical support to our customers through local service groups and engineers consisting of field applications engineers, technical service groups, applications development groups and training capabilities. Our field applications engineers, located in the United States and approximately ten other countries, work directly with our customers on product qualification and process improvements in their facilities. In addition, in response to customer needs for local technical service and fast turnaround time, we maintain regional applications laboratories. Our applications laboratories maintain process equipment that simulate customers applications and industry test standards and provide product evaluation, technical support and complaint resolution for our customers.

Our Customers and Markets

Our major semiconductor customer groups include integrated circuit device manufacturers, OEMs that provide equipment to integrated circuit device manufacturers, gas and chemical manufacturing companies and manufacturers of high-precision electronics.

Our most significant customers based on sales in fiscal 2011 include leading device makers such as Samsung America Inc., ST Micro, Taiwan Semiconductor Manufacturing Co. Ltd. and UMC Group, leading OEM companies such as ASML and Tokyo Electron and leading wafer grower companies such as MEMC, Siltronic AG and SUMCO Oregon Corp. We also sell our products to flat panel display OEMs, materials suppliers and end users. The major manufacturers for flat panel displays and flat panel display equipment are concentrated in Japan, Korea and other parts of Asia.

Our non-semiconductor customers include customers in the solar and life science industries and, for our Poco Graphite products, electrical discharge machining customers, glass container manufacturers, aerospace manufacturers and manufacturers of biomedical implantation devices.

In 2011, 2010 and 2009, net sales to our top ten customers accounted for approximately 29%, 28% and 29%, respectively, of our net sales. During those same periods no single customer accounted for more than 10% of our net sales and international net sales represented in excess of 71% of our net sales each year. Over 2,900 customers purchased products from us during 2011.

We may enter into supply agreements with our customers to govern the conduct of our business with our customers, including the manufacture of our products. These agreements generally have a term of one to three years, but do not contain any long-term purchase commitments. Instead, we work closely with our customers to develop non-binding forecasts of the future volume of orders. However, customers may cancel their orders, change production quantities from forecasted volumes or delay production for a number of reasons beyond our control.

Table of Contents

Sales and Marketing

We sell our products worldwide, primarily through our direct sales force and strategic distributors located in offices in all major semiconductor markets, as well as through independent distributors elsewhere. As of December 31, 2011, our sales and marketing force consisted of approximately 422 employees worldwide. Our direct sales force is also supplemented by independent distributors, sales representatives and agents.

Our semiconductor marketing efforts focus on our push/pull marketing strategy in order to maximize our selling opportunities. We work with OEMs to persuade them to design tools that require our products and we create end-user pull demand by persuading semiconductor manufacturers to specify our products. Our industry relationships have provided us with the opportunity for significant collaboration with our customers at the product design stage, which has facilitated our ability to introduce new products and applications that meet our customers needs. In addition, we are constantly identifying for our customers the variety of analytical, purification and process control challenges that may be addressed by our products. Further, we adapt our products and technologies to resolve process control issues identified by our customers. Our sales representatives provide our customers with worldwide support and information about our products.

We believe that our technical support services are important to our marketing efforts. These services include assisting in defining a customer s needs, evaluating alternative products, designing a specific system to perform the desired separation, training users and assisting customers in compliance with relevant government regulations. In addition, we maintain a network of service centers located in the United States and in key international markets to support our products.

Competition

The market for our products is highly competitive. While price is an important factor, we compete primarily on the basis of the following factors:

- historical customer relationships;
- technical expertise;
- product quality and performance;
- total cost of ownership;
- customer service and support;
- breadth of product line;
- breadth of geographic presence;
- advanced manufacturing capabilities; and
- after-sales service.

We believe that we compete favorably with respect to all of the factors listed above, but we cannot assure you that we will continue to do so. We believe that our key competitive strengths include our broad product line, the low total cost of ownership of our products, our ability to provide our customers with quick order fulfillment and our technical expertise. However, our competitive position varies depending on the market segment and specific product areas within these segments. While we have longstanding relationships with a number of semiconductor and other electronic device manufacturers, we also face significant competition from companies that have longstanding relationships with other semiconductor and electronic device manufacturers and, as a result, have been able to have their products specified by those customers for use in manufacturers fabrication facilities. In the markets for our consumable products, we believe that our differentiated membrane and materials management technologies, strong supply chain capabilities that allow us to provide our customers with quick order fulfillment, and technical expertise, which enables us to develop membranes to meet specific customer needs and assist our customers in improving the functionality of our membranes for particular applications, allow us to compete favorably. In these markets our competitors compete against us on the basis of price, as well as alternative membrane technology having different functionality, manufacturing capabilities and breadth of geographic presence.

Table of Contents

The market for our products is highly fragmented, and we compete with a number of different companies. Our liquid filtration and other contamination control products compete with product offerings from a wide range of companies including both large companies, such as Pall Corporation, as well as small Asian filter manufacturers. Our contamination control components and systems also face worldwide competition from companies such as Saint-Gobain, Parker, Gemu, Donaldson and Iwaki Co., Ltd. Our gas filtration products compete with companies such as SAES Puregas and Mott Metallurgical Corporation. Our microenvironment product lines face competition largely on a product-by-product basis. We face competition from companies such as Miraial (formerly Kakizaki), Dainichi and Shin-Etsu Polymer and from regional suppliers such as e.PAK Resources Pte. Ltd. These companies compete with us primarily in 200 mm and 300 mm applications. Our data storage and finished electronic components products compete with companies such as ITW/Camtex, Peak International and 3M and from regional suppliers. Our Poco Graphite products compete with products manufactured by companies such as Mersen (France), Tokai Carbon (Japan) and Toyo Tanso (Japan). Some of our competitors are larger and have greater resources than we do. In some cases, our competitors are smaller than us, but well-established in specific product niches. We believe that none of our competitors competes with us across all of our product offerings and that, within the markets that we serve, we offer a broader line of products, make use of a wider range of process control technologies and address a broader range of applications than any single competitor.

Engineering, Research and Development

Our aggregate engineering, research and development expenses in 2011, 2010 and 2009 were $48.0 million, $43.9 million and $35.0 million, respectively. As of December 31, 2011, we had approximately 205 employees in engineering, research and development. In addition, we have followed a practice of supplementing our internal research and development efforts by licensing technology from unaffiliated third parties and/or acquiring distribution rights with respect to products incorporating externally owned technologies when we believe it is in our long-term interests to do so.

To meet the global needs of our customers, we have engineering, research and development capabilities in California, Minnesota, Massachusetts, Texas, Japan, Taiwan and Malaysia. Our engineering, research and development efforts are directed toward developing and improving our technology platforms for semiconductor and advanced processing applications and identifying and developing products for new applications for which fluid management plays a critical role.

We use sophisticated methodologies to research, develop and characterize our materials and products. Our materials technology laboratory is equipped to analyze the physical, rheological, thermal, chemical and compositional nature of the polymers we use. Our materials lab includes standard and advanced polymer analysis equipment such as inductively coupled plasma mass spectrometry (ICP/MS), inductively coupled plasma atomic emission spectrometry (ICP/AES), fourier transform infrared spectroscopy (FTIR) and automated thermal desorption gas chromatography/mass spectrometry (ATD-GC/MS). This advanced analysis equipment allows us to detect contaminants in materials that could harm the semiconductor manufacturing process to levels as low as parts per billion, and in many cases parts per trillion.

Our capabilities to test and characterize our materials and products are focused on continuously reducing risks and threats to the integrity of the critical materials that our customers use in their manufacturing processes. We expect that technology and product engineering, research and development will continue to represent an important element in our ability to develop and characterize our materials and products.

Key elements of our engineering, research and development expenditures over the past three years have included the development of new product platforms to meet the manufacturing needs for 90, 65, 45, 32 nanometer and smaller semiconductor devices. Driven by the proliferation of new materials and chemicals in the manufacturing processes and increased needs for tighter process control for 300 mm wafers, investments were made for new contamination control products in the area of copper interconnects, deep ultra-violet (DUV) photolithography, and chemical and gas management technologies for advanced wafer cleans, deposition and etch equipment.

Table of Contents

Additional investments were made in the area of advanced process control, monitoring and diagnostics capabilities for future generations of semiconductor manufacturing processes, including the development of a manufacturing capability for the production of Single Wafer Carriers, Multi Application Carriers and FOUPS for the next generation 450mm wafers. Our employees also work closely with our customers development personnel. These relationships help us identify and define future technical needs on which to focus our engineering, research and development efforts. In addition, we participate in Semiconductor Equipment and Materials International (SEMI), a consortium of semiconductor equipment suppliers. For example, we have participated with SEMI to develop specifications and with a major customer to develop wafer handling products for 450mm wafers. We also support research at academic and other institutions targeted at advances in materials science and semiconductor process development.

MANUFACTURING

Our customers rely on our products to assure the integrity of the critical materials used in their manufacturing processes by providing dimensional precision and stability, purity, cleanliness and consistent performance. Our ability to meet our customers expectations, combined with our substantial investments in worldwide manufacturing capacity, position us to respond to the increasing materials integrity management demands of the microelectronics industry and other industries that require similar levels of materials integrity.

To meet our customer needs worldwide, we have established an extensive global manufacturing network with manufacturing and coating facilities in the United States, Japan, Taiwan, France, Malaysia and South Korea. Because we work in an industry where contamination control is paramount, we maintain Class 100 to Class 10,000 cleanrooms for manufacturing and assembly. We believe that our worldwide manufacturing operations and our advanced manufacturing capabilities are important competitive advantages. Our advanced manufacturing capabilities include:

Injection Molding. Our manufacturing expertise is based on our long experience with injection molding. Using molds produced from computer-aided processes, our manufacturing technicians utilize specialized injection molding equipment and operate within specific protocols and procedures established to consistently produce precision products.

Extrusion. Extrusion is accomplished through the use of heat and force from a screw to melt solid polymer pellets in a cylinder and then forcing the resulting melt through a die to produce tubing and pipe. We have established contamination-free on-line laser marking and measurement techniques to properly identify products during the extrusion process and ensure consistency in overall dimension and wall thickness. In addition, we use extrusion technology to extrude a polymer mix into flat sheet and hollow fiber membranes.

Blow Molding. Blow molding consists of the use of heat and force from a screw to melt solid polymer pellets in a cylinder and then forcing the resulting melt through a die to create a hollow tube. The molten tube is clamped in a mold and expanded with pressurized gas until it takes the shape of the mold. We utilize advanced three-layer processing to manufacture premium grade 55 gallon drums, leading to cost savings while simultaneously assuring durability, strength and purity.

Rotational Molding. Rotational molding is accomplished by the placing of a solid polymer powder in a mold, placing the mold in an oven and rotating the mold on two axes so that the melting polymer coats the entire surface of the mold. This forms a part in the shape of the mold upon cooling. We use rotational molding in manufacturing containers up to 5,000 liters. Our rotational molding expertise has provided rapid market access for our current fluoropolymer sheet lining manufacturing business.

Compression Molding. In compression molding, thermoset polymers are processed. Today, we use this manufacturing process primarily for manufacturing bipolar plates and end-plates for the fuel cell market. We use the same expertise as in injection molding to assure a consistently produced precision product.

Table of Contents

Membrane Casting. We cast membrane by extruding a polymer into flat sheet or hollow fiber format that is passed through a chamber with controlled atmospheric conditions to control the development of voids or pores in the membrane. Once cast, the membrane is subjected to solvent extraction and annealing steps. The various properties of the membranes that we offer are developed during subsequent process steps.

Cartridge Manufacturing. We fabricate the membrane we manufacture as well as membranes manufactured by others into finished filtration cartridges in a variety of configurations. The fabrication process involves membrane processing into pleated and other configurations around a central core and enclosing it in a framework of end caps and protective screening for use in fabricated cartridge housings. We also manufacture filter cartridges that are integrated into their own housings and incorporate our patented Connectology quick connect technology.

Graphite Synthesis. We have a differentiated proprietary graphite synthesis process that produces premium graphite with superior strength, uniformity and performance. This synthesis process consists of blending and forming petroleum cokes into green billets, baking over an extended period between 800 to 1,100°C, followed by a graphitization process at temperatures between 2,000 to 3,000°C. The graphite produced by this process is sold in bulk, machined into specific components or converted into silicon carbide through controlled exposure to silicon monoxide gas.

Machining. Machining consists of the use of computer-controlled equipment to create shapes, such as valve bodies and other specific components, out of solid polymer blocks or rods, premium graphite and silicon carbide. Our computerized machining capabilities enable speed and repeatability in volume manufacturing of our machined products, particularly products utilized in chemical delivery applications.

Assembly. We have established protocols, flow charts, work instructions and quality assurance procedures to assure proper assembly of component parts. The extensive use of robotics throughout our facilities reduces labor costs, diminishes the possibility of contamination and assures process consistency.

Tool Making. We employ tool development staff in the United States and Malaysia and have tool-making capabilities in Malaysia. Our toolmakers produce the majority of the tools we use throughout the world.

We have made significant investments in systems and equipment to create innovative products and tool designs. Our computer-aided design (CAD) equipment allows us to develop three-dimensional electronic models of desired customer products to guide design and tool-making activities. Our CAD equipment also aids in the rapid prototyping of products.

We also use computer-automated engineering in the context of mold flow analysis. Beginning with a three-dimensional CAD model, mold flow analysis is used to visualize and simulate how our molds will fill. The mold flow analysis techniques cut the time needed to bring a new product to market because of the reduced need for sampling and development. Also, our CAD equipment can create a virtual part with specific geometries, which drives subsequent tool design, tool manufacturing, mold flow analysis and performance simulation.

In conjunction with our three-dimensional product designs, we use finite element analysis software to simulate the application of a variety of forces or pressures to observe what will happen during product use. This analysis helps us anticipate forces that affect our products under various conditions. The program also assists our product designers by measuring anticipated stresses against known material strengths and establishing proper margins of safety.

Table of Contents

Patents and Other Intellectual Property Rights

We rely on a combination of patent, copyright, trademark and trade secret laws and license agreements to establish and protect our proprietary rights. As of January 20, 2012 our patent portfolio included 288 current U.S. patents, 568 current foreign patents, including counterparts to U.S. filings, 41 pending U.S. patent applications, 29 pending filings under the Patent Cooperation Treaty not yet nationalized and 424 pending foreign patent applications. While we believe that patents may be important for aspects of our business, we believe that our success also depends more upon close customer contact, innovation, technological expertise, responsiveness and worldwide distribution. Additionally, while our patented technology may delay or deter a competitor in offering a competing product, we do not believe that our patent portfolio functions as a barrier to entry for any of our competitors. In addition, while we license and will continue to license technology used in the manufacture and distribution of products from third parties, except as described below, these licenses are not currently related to any of our core product technologies.

We require each of our employees, including our executive officers, to enter into standard agreements pursuant to which the employee agrees to keep confidential all of our proprietary information and to assign to us all inventions made while employed by us.

The patent position of any manufacturer, including us, is subject to uncertainties and may involve complex legal and factual issues. Litigation has in the past and may in the future be necessary to enforce our patents and other intellectual property rights or to defend ourselves against claims of infringement or invalidity. The steps that we have taken in seeking patents and other intellectual property protections may prove inadequate to deter misappropriation of our technology and information. In addition, our competitors may independently develop technologies that are substantially equivalent or superior to our technology.

Governmental Regulation

Our operations are subject to federal, state and local regulatory requirements relating to environmental, waste management and health and safety matters, including measures relating to the release, use, storage, treatment, transportation, discharge, disposal and remediation of contaminants, hazardous substances and wastes, as well as practices and procedures applicable to the construction and operation of our plants. There can be no assurance that we will not incur material costs and liabilities or that our past or future operations will not result in exposure to injury or claims of injury by employees or the public. Although some risk of costs and liabilities related to these matters is inherent in our business, as with many similar businesses, we believe that our business is operated in substantial compliance with applicable regulations. However, new, modified or more stringent requirements or enforcement policies could be adopted, which could adversely affect us. While we expect that capital expenditures will be necessary to assure that any new manufacturing facility is in compliance with environmental and health and safety laws, we do not expect these expenditures to be material. Otherwise, we are not presently aware of any facts or circumstances that would cause us to incur significant liabilities in the future related to environmental, health and safety law compliance.

Employees

As of December 31, 2011, we had approximately 2,600, full-time employees, as well as approximately 165 temporary employees. Approximately 205 of our full-time employees work in engineering, research and development and approximately 422 work in sales and marketing. Given the variability of business cycles in the semiconductor industry and the quick response time required by our customers, it is critical that we be able to quickly adjust the size of our production staff to maximize efficiency. Therefore, we use skilled temporary labor as required.

None of our employees are represented by a labor union or covered by a collective bargaining agreement other than statutorily mandated programs in certain European countries.

Table of Contents

Information about our operating segments

Our financial reporting segments are Contamination Control Solutions (CCS), Microenvironments (ME), and Specialty Materials (SMD). In 2011, 2010 and 2009 approximately 71% of our net sales were made to customers outside North America. Industry and geographic segment information is discussed in Note 16 to the Entegris, Inc. Consolidated Financial Statements (the Financial Statements) included in response to Item 8 below, which Note is incorporated herein by reference.

Other Information

On July 27, 2005, our Board of Directors adopted a shareholder rights plan (the Rights Plan) pursuant to which Entegris declared a dividend on August 8, 2005 to its shareholders of record on that date of one preferred share purchase right (a Right) for each share of Entegris common stock owned on August 8, 2005 and authorized the issuance of Rights in connection with future issuances of Entegris common stock. Each Right entitles the holder to purchase one-hundredth of a share of a series of preferred stock at an exercise price of $50, subject to adjustment as provided in the Rights Plan. The Rights Plan is designed to protect Entegris shareholders from attempts by others to acquire Entegris on terms or by using tactics that could deny all shareholders the opportunity to realize the full value of their investment. The Rights are attached to the shares of our common stock until certain triggering events specified in the Rights Agreement occur, including, unless approved by our board of directors, an acquisition by a person or group of specified levels of beneficial ownership of our common stock or a tender offer for our common stock. Upon the occurrence of any of these triggering events, the Rights authorize the holders to purchase at the then-current exercise price for the Rights that number of shares of our common stock having a market value equal to twice the exercise price. The Rights are redeemable by us for $0.01 and will expire on August 8, 2015. One of the events that would trigger the Rights is the acquisition, or commencement of a tender offer, by a person (an Acquiring Person, as defined in the shareholder rights plan), other than Entegris or any of our subsidiaries or employee benefit style="font-family:inherit;font-size:10pt;">AZZ’s debt instruments contain covenants which restrict or prohibit certain actions (“negative covenants”), including, but not limited to, AZZ’s ability to incur debt, create or suffer to exist liens, capital spending limits, engage in certain merger, acquisition, or divestiture actions, or increase dividends beyond a specific level. AZZ’s debt instruments also contain covenants requiring AZZ to, among other things, maintain specified financial ratios (“affirmative covenants”). Failure to comply with these negative covenants and affirmative covenants could result in an event of default that, if not cured or waived, could restrict the Company’s access to liquidity and have a material adverse effect on the Company’s business or prospects. If the Company does not have enough cash to service its debt or fund other liquidity needs, AZZ may be required to take actions such as requesting a waiver from lenders, reducing or delaying capital expenditures, selling assets, restructuring or refinancing all or part of the existing debt, or seeking additional equity capital. AZZ cannot assure that any of these remedies can be effected on commercially reasonable terms or at all.

A failure in our operational systems or cyber security attacks on any of our facilities, or those of third parties, may affect adversely our financial results.

Our business is dependent upon our operational systems to process a large amount of data and complex transactions. If any of our financial, operational, or other data processing systems fail or have other significant shortcomings, our financial results could be adversely affected. Our financial results could also be adversely affected if an employee causes our operational systems to fail, either as a result of inadvertent error or by deliberately tampering with or manipulating our operational systems. Due to increased technology advances, we have become more reliant on technology to help increase efficiency in our business. We use computer programs to help run our financial and operations sectors, and this may subject our business to increased risks. Any future cyber security attacks that affect our facilities, our customers and any financial data could have a material adverse effect on our business. In addition, cyber attacks on our customer and employee data may result in a financial loss, including potential fines for failure to safeguard data, and may negatively impact our reputation. Third-party systems on which we rely could also suffer operational system failure. Any of these occurrences could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our financial results.

Item 1B. Unresolved Staff Comments
None.

Table of Contents

Item 2. Properties

The following table sets forth information about the Company's principal facilities, owned or leased, on February 29, 2016:

Location	Land/Acres	Buildings/Sq. Footage	Segment/Occupant
Crowley, Texas	29.7	201,000	Energy Segment
Houston, Texas	5.4	61,600	Energy Segment
Richland, Mississippi	6.7	60,981	Energy Segment
Pittsburg, Kansas	15.3	87,800	Energy Segment
Medway, Massachusetts	—	(Leased) 85,000	Energy Segment
Fulton, Missouri	—	(Leased) 126,300	Energy Segment
Hamilton, Ontario Canada	—	(Leased) 78,000	Energy Segment
Fort Worth, Texas	—	(Leased) 201,000	Energy Segment
Norcross, Georgia	5.5	(Leased) 15,000	Energy Segment
Norcross, Georgia	11.0	(Leased) 161,229	Energy Segment
College Station, Texas	—	(Leased) 377	Energy Segment
Chanute, Kansas	—	(Leased) 1,000	Energy Segment
Spring, Texas	—	(Leased) 1,000	Energy Segment
York, Pennsylvania	—	(Leased) 4,855	Energy Segment
St. Petersburg, Florida	6.4	(Leased) 26,155	Energy Segment
Edmonton, AB Canada	—	(Leased) 17,680	Energy Segment
Hellevoetsluis, Netherlands	1.6	(Leased) 30,785	Energy Segment
Radom, Poland	—	(Leased) 56,000	Energy Segment
Barueri, Brazil	0.4	(Leased) 18,478	Energy Segment
Beaumont, Texas	12.9	33,700	Galvanizing Segment
Big Spring, Texas	15.2	109,000	Galvanizing Segment
Crowley, Texas	28.5	79,200	Galvanizing Segment
Houston, Texas	25.2	61,800	Galvanizing Segment
Houston, Texas	23.7	128,764	Galvanizing Segment
Hurst, Texas	17.5	145,522	Galvanizing Segment
Kennedale, Texas	6.0	24,390	Galvanizing Segment
San Antonio, Texas	15.0	17,275	Galvanizing Segment
Waskom, Texas	10.6	30,400	Galvanizing Segment
Atkinson, Nebraska	12.9	26,480	Galvanizing Segment
Kosciusko, Mississippi	32.9	(Leased) 118,639	Galvanizing Segment
Moss Point, Mississippi	13.5	16,000	Galvanizing Segment
Richland, Mississippi	5.6	22,800	Galvanizing Segment
Citronelle, Alabama	10.8	34,000	Galvanizing Segment
Goodyear, Arizona	16.8	36,800	Galvanizing Segment
Prairie Grove, Arkansas	11.5	34,000	Galvanizing Segment
Belle Chasse, Louisiana	9.5	34,000	Galvanizing Segment
Morgan City, Louisiana	1.6	14,300	Galvanizing Segment
Port Allen, Louisiana	22.2	48,700	Galvanizing Segment
McCarran, Nevada	23.7	43,379	Galvanizing Segment
Cincinnati, Ohio	15.0	81,700	Galvanizing Segment
Canton, Ohio	13.6	60,756	Galvanizing Segment
Hamilton, Indiana	49.3	110,700	Galvanizing Segment

8

Table of Contents

Muncie, Indiana	6.6	50,200	Galvanizing Segment
Plymouth, Indiana	40.0	42,900	Galvanizing Segment
Joliet, Illinois	12.0	113,900	Galvanizing Segment
Dixon, Illinois	21.3	59,600	Galvanizing Segment
Peoria, Illinois	7.4	42,600	Galvanizing Segment
Peoria, Illinois	—	(Leased) 66,400	Galvanizing Segment
Winsted, Minnesota	10.4	81,200	Galvanizing Segment
Bristol, Virginia	3.6	38,000	Galvanizing Segment
Poca, West Virginia	22.0	14,300	Galvanizing Segment
Commerce, Colorado	3.9	31,940	Galvanizing Segment
Chelsea, Oklahoma	15.0	30,700	Galvanizing Segment
Tulsa, Oklahoma	29.8	186,726	Galvanizing Segment
Port of Catoosa, Oklahoma	4.0	(Leased) 42,360	Galvanizing Segment
Nashville, Tennessee	12.0	27,055	Galvanizing Segment
St. Louis, Missouri	5.6	1,800	Galvanizing Segment
Kansas City, Missouri	—	(Leased) 18,000	Galvanizing Segment
Minneapolis, Minnesota	4.3	67,260	Galvanizing Segment
Louisville, Kentucky	5.9	23,007	Galvanizing Segment
Montreal, QC Canada	4.4	85,000	Galvanizing Segment
Acton, ON Canada	6.3	32,090	Galvanizing Segment
Acton, ON Canada	4.1	24,180	Galvanizing Segment
Halifax, NS Canada	2.9	33,832	Galvanizing Segment
Fort Worth, Texas	—	(Leased) 41,000	Corporate Offices

Table of Contents

Item 3. 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 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock, $1.00 par value ("Common Stock"), is traded on the New York Stock Exchange under the symbol "AZZ". The following table sets forth the high and low sales prices of our Common Stock on the New York Stock Exchange on a quarterly basis for each of the two fiscal years ended February 29, 2016 and February 28, 2015.

	High	Low	Dividends Declared
Fiscal 2016			
First Quarter	$49.57	$42.89	$ 0.15
Second Quarter	$54.01	$45.01	$ 0.15
Third Quarter	$60.36	$46.39	$ 0.15
Fourth Quarter	$60.30	$47.04	$ 0.15
Fiscal 2015			
First Quarter	$46.82	$41.50	$ 0.14
Second Quarter	$49.09	$41.30	$ 0.14
Third Quarter	$47.67	$36.84	$ 0.15
Fourth Quarter	$47.96	$38.64	$ 0.15

The payment of dividends is within the discretion of our Board and is dependent on our earnings, capital requirements, operating and financial condition and other factors. AZZ has paid dividends quarterly over the last three fiscal years. Dividends paid totaled $15.5 million, $14.9 million, and $14.3 million during fiscal 2016, 2015, and 2014, respectively. Dividend payments are restricted to total payments of $20.0 million per fiscal year based on covenants with the Company's lenders. AZZ fully expects to continue to pay dividends. However, the decision is within the discretion of our Board and we expect any future payments will be made on a quarterly basis.

In January of 2012, our Board authorized the repurchase of up to ten percent of the outstanding shares of our Common Stock. The share repurchase authorization does not have an expiration date, and the amount and prices paid for any future share purchases under the authorization will be based on market conditions and other factors at the time of the purchase. Repurchases under this share repurchase authorization would be made through open market purchases or private transactions in accordance with applicable federal securities laws, including Rule 10b-18 under the Exchange Act. We did not repurchase any shares of Common Stock during the fiscal year ended February 29, 2016.

The approximate number of holders of record of our Common Stock at February 29, 2016 was 907. See Item 12 of this Report for information regarding securities authorized for issuance under equity compensation plans.

Table of Contents

STOCK PRICE PERFORMANCE GRAPH

The following graph illustrates the five-year cumulative total return on investments in our Common Stock, the CRSP Index for NYSE Stock Market (U.S. Companies) and the CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies). These indices are prepared by Zacks Investment Research, Inc. AZZ's Common Stock is listed on The New York Stock Exchange and AZZ is engaged in two industry segments. The shareholder return shown below is not necessarily indicative of future performance. Total return, as shown, assumes $100 invested on February 28, 2011, in shares of AZZ Common Stock and each index, all with cash dividends reinvested. The calculations exclude trading commissions and taxes.

Comparison of Five Year-Cumulative Total Returns
Value of $100 Invested on February 28, 2011
For Fiscal Year Ended on the Last Day of February

Legend Symbol	CRSP Total Returns Index for:	2/11	2/12	2/13	2/14	2/15	2/16
	AZZ Inc.	100.00	120.32	217.65	219.31	227.47	255.97
	CRSP Index for NYSE Stock Market (US Companies)	100.00	103.17	119.03	146.35	164.26	148.17
	CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies) Wholesale Trade - Durable Goods	100.00	115.25	130.07	163.66	169.12	160.36

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
D. The index level for all series was set to $100 on 02/28/2011.

See the equity compensation plan information in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Table of Contents

Item 6. Selected Financial Data.

	Fiscal Year				
	2016 (a)	2015 (b)	2014 (c)	2013 (d)	2012 (e)
	(In thousands, except per share amounts)				
Summary of operations:					
Net sales	$903,192	$816,687	$751,723	$570,594	$469,112
Net income	76,790	64,943	59,597	60,456	40,736
Earnings per share:					
Basic earnings per common share	2.98	2.53	2.34	2.39	1.62
Diluted earnings per common share	2.96	2.52	2.32	2.37	1.61
Total assets	983,371	936,914	953,253	694,205	606,775
Total debt	326,982	337,848	405,616	210,714	225,000
Total liabilities	502,155	516,862	577,340	360,271	319,166
Shareholders' equity	481,216	420,052	375,913	333,934	287,609
Working capital	160,929	149,492	152,165	143,533	224,757
Cash provided by operating activities	143,589	118,157	107,275	92,738	64,065
Capital expenditures	39,861	29,377	43,472	24,923	19,784
Depreciation & amortization	47,417	46,089	43,305	29,363	22,595
Cash dividend per common share	0.60	0.58	0.56	0.53	0.50
Weighted average shares outstanding - basic	25,800	25,676	25,514	25,320	25,132
Weighted average shares outstanding - diluted	25,937	25,778	25,693	25,561	25,362

(a) Includes the acquisitions of US Galvanizing, LLC on June 5, 2015 and Alpha Galvanizing Inc. on February 1, 2016.

(b) Includes the acquisition of Zalk Steel & Supply Co. on June 20, 2014.

(c) Includes the acquisition of Aquilex SRO on March 29, 2013. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Year ended February 28, 2014.

(d) Includes the acquisition of NLI, on June 1, 2012, the acquisition of Galvcast on October 1, 2012 and the acquisition of G3 on January 2, 2013.

(e) Includes the acquisition of Galvan, on February 1, 2012.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements regarding our business and operations. Our actual results may differ materially from those we currently anticipate as a result of the factors we describe under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Overview

As mentioned in Item 1, AZZ operates two distinct business segments, the Energy Segment and the Galvanizing Segment. Our discussion and analysis of financial condition and results of operations is divided by each of our segments along with corporate costs and other costs not specifically identifiable to a segment. For a reconciliation of segment operating income to pretax income, see Note 13 to the Consolidated Financial Statements. References herein to fiscal years are to the twelve-month periods that end in February of the relevant calendar year. For example, the twelve-month period ended February 29, 2016 is referred to as "fiscal 2016" or "fiscal year 2016."

For the fiscal year ended February 29, 2016, we recorded net sales of $903.2 million compared to the prior year's net sales of $816.7 million. Of the total net sales for fiscal 2016, approximately 55.5% of our net sales were generated from the Energy Segment and approximately 44.5% were generated from the Galvanizing Segment. Net income for fiscal 2016 was $76.8 million compared to $64.9 million for fiscal 2015. Net income as a percentage of net sales was 8.5% for fiscal 2016 as compared to 8.0% for fiscal 2015. Earnings per share increased by 17.5% to $2.96 per share for fiscal 2016 compared to $2.52 per share for fiscal 2015, on a diluted basis.

Table of Contents

Results of Operations

Year ended February 29, 2016 compared with year ended February 28, 2015

Backlog

We ended fiscal 2016 with a backlog of $334.5 million, a slight increase compared to fiscal 2015. The Company's backlog as of year end pertains solely to the Energy Segment's operations. The book-to-ship ratio remained relatively flat compared to fiscal 2015. The book-to-ship ratio was 1.00 to 1 for fiscal 2016 and 1.01 to 1 for fiscal 2015.

The following table reflects bookings and shipments for fiscal 2016 and 2015.

Backlog Table

(In thousands)

	Period Ended		Period Ended	
Backlog	2/28/2015	$332,595	2/28/2014	$325,013
Bookings		905,053		824,269
Shipments		903,192		816,687
Backlog as reported	2/29/2016	$334,456	2/28/2015	$332,595
Book-to-Ship Ratio		1.00		1.01

Net Sales

Our total net sales for fiscal 2016 increased by $86.5 million, or 10.6%, as compared to fiscal 2015.

The following table reflects the breakdown of revenue by segment:

	2016	2015
	(In thousands)	
Net sales:		
Energy	$500,830	$458,339
Galvanizing	402,362	358,348
Total Net Sales	$903,192	$816,687

Our Energy Segment recorded net sales for fiscal 2016 of $500.8 million, an increase of 9.3% compared to fiscal 2015 net sales of $458.3 million. The increase in net sales for fiscal 2016 was attributable to greater penetration and project scope expansion in specialty welding services for petroleum refining both domestically and internationally. The introduction of new technology continues to deliver positive results and drive growth in this segment.

Our Galvanizing Segment, which consisted of forty-three hot dip galvanizing facilities as of February 29, 2016, generated net sales of $402.4 million, a 12.3% increase from the prior year’s net sales of $358.3 million. The volume of steel processed for the fiscal year increased 15.6% while sales prices were slightly lower in fiscal 2016 compared to fiscal 2015. The acquisition of US Galvanizing, LLC and Alpha Galvanizing Inc. accounted for a significant portion of the increase in net sales and steel processed in the current year. The solar and original equipment manufacturer (OEM) markets also added to the increased sales and steel processed volumes during the year.

Operating Income

Operating income for the Energy Segment increased $19.8 million, or 51.1%, for fiscal 2016, to $58.5 million as compared to $38.7 million for fiscal 2015. Operating margins for this segment were 11.7% for fiscal 2016 as compared to 8.4% for fiscal 2015. This increase was attributable to increased net sales, improved pricing, and better execution overall. During 2015, operating income was impacted by realignment charges described in Note 6 in the Notes to the Consolidated Financial Statements and certain cost overruns on projects at NLI and Aquilex SRO.

Operating income for the Galvanizing Segment increased $6.2 million, or 7.0%, for fiscal 2016 to $94.8 million as compared to $88.6 million for the prior year. Operating margins were 23.6% for fiscal 2016 as compared to 24.7% for fiscal 2015. As noted

14

Table of Contents

within the net sales discussion, the acquisition of US Galvanizing, LLC and Alpha Galvanizing Inc. were the primary contributors of operating income growth which was partially offset by higher zinc costs year over year.

Corporate expenses were $30.9 million for fiscal 2016 and $20.4 million for fiscal 2015. During fiscal 2016, we experienced higher legal fees associated with attorney fees related to a commercial lawsuit which settled during the fourth quarter, higher outside costs associated with various acquisitions and divestiture activities, and charges taken in the fourth quarter related to rectifying incorrect matching payments made to employee benefit plans of certain employees in prior years. During fiscal 2015, the Company recognized a $9.1 million gain from the reversal of the contingent liability associated with the acquisition of NLI. Based on the criteria set forth in the acquisition agreement, we no longer believe an additional payment to the previous owners is probable. Excluding the gain from the reversal of the NLI contingency, for the year, general corporate expenses would have totaled $29.5 million during fiscal 2015 and the year over year comparison would have been relatively flat.

Interest

Interest expense for fiscal 2016 decreased 8.5% to $15.2 million as compared to $16.6 million in fiscal 2015. This decrease is the result of lower borrowings during fiscal 2016 stemming from mandatory and elective principal reductions. For additional information on outstanding debt, see Note 12 of the Notes to the Consolidated Financial Statements. As of February 29, 2016, we had outstanding debt of $327.0 million compared to $337.8 million at the end of fiscal 2015. AZZ's debt to equity ratio was 0.68 to 1 at the end of fiscal 2016 compared to 0.80 to 1 at the end of fiscal 2015.

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

We recorded a net gain of $0.3 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2016. The net gain is primarily related to the sale of our St. Catherines property located in Ontario, Canada. We recorded a net gain of $2.5 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2015. The gain from the prior fiscal year is primarily attributable to the property, plant and equipment lost as a result of the fires at our Joliet, Illinois, Goodyear, Arizona and New Orleans, Louisiana galvanizing facilities, offset by insurance proceeds.

Other (Income) Expense

For fiscal 2016, a total of $3.1 million in expense was recorded to other (income) expense, net, which was primarily attributable to a fourth quarter settlement of a commercial lawsuit, in addition to some currency translation losses. For fiscal 2015, we recorded $2.7 million of expense to other (income) expense, net, which was attributable to the demolition and cleanup efforts at our New Orleans, Louisiana and Goodyear, Arizona galvanizing facilities, following fires at the two facilities.

Provision For Income Taxes

The provision for income taxes reflected an effective tax rate of 26.4% for fiscal 2016 and 27.9% for fiscal 2015. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year, but may not be consistent from year to year. The most significant impact on the difference between our statutory U.S. federal income tax rate of 35.0% and our effective tax rate is the result of certain U.S. state tax planning for the current and prior fiscal year.

Table of Contents

Year ended February 28, 2015 compared with year ended February 28, 2014

Backlog

We ended fiscal 2015 with a backlog of $332.6 million, an increase of 2.3% as compared to fiscal 2014. The Company's backlog as of year end pertains to the Energy Segment's operations. The book-to-ship ratio remained relatively flat at 1.01 to 1 for fiscal 2015 and 2014.

The following table reflects bookings and shipments for fiscal 2015 and 2014.

Backlog Table

(In thousands)

	Period Ended		Period Ended	
Backlog	2/28/2014	$325,013	2/29/2013	$221,714
Bookings		824,269		759,935
Acquired Backlog		—		95,087
Shipments		816,687		751,723
Backlog as reported	2/28/2015	$332,595	2/28/2014	$325,013
Book-to-Ship Ratio		1.01		1.01

Net Sales

Our total net sales for fiscal 2015 increased by $65.0 million, or 8.6%, as compared to fiscal 2014.

The following table reflects the breakdown of revenue by segment:

	2015	2014
	(In thousands)	
Net sales:		
Energy	$458,339	$416,106
Galvanizing	358,348	335,617
Total Net Sales	$816,687	$751,723

Our Energy Segment recorded net sales for fiscal 2015 of $458.3 million, an increase of 10.1% compared to fiscal 2014 net sales of $416.1 million. The increase in net sales for fiscal 2015 was attributable to organic growth in our legacy energy businesses and reporting a full year of results for Aquilex SRO. As noted in Item 1 and in Note 16 of the Notes to the Consolidated Financial Statements, Aquilex SRO was acquired on March 29, 2013, therefore, only eleven months of activity was included within fiscal 2014.

Our Galvanizing Segment, which consisted of thirty-six hot dip galvanizing facilities as of February 28, 2015, generated net sales of $358.3 million, a 6.8% increase from the prior year’s net sales of $335.6 million. The volume of steel processed for the fiscal year, and selling price increased slightly for fiscal 2015 as compared to fiscal 2014. The acquisition of Zalk Steel along with our Joliet facility operating for a full year during fiscal 2015 also attributed to the increase in net sales and volumes. Joliet had previously been closed as a result of fire damage that occurred in fiscal 2013. Historically, net sales for the Galvanizing Segment have followed closely the condition of the industrial sector of the general economy.

Operating Income

Operating income for the Energy Segment decreased $5.8 million, or 13.1%, for fiscal 2015, to $38.7 million as compared to $44.5 million for fiscal 2014. Operating margins for this segment were 8.4% for fiscal 2015 as compared to 10.7% for fiscal 2014. This decrease was generally attributable to charges related to realignment efforts described in Note 6 in the Notes to the Consolidated Financial Statements and certain cost overruns on projects at NLI and Aquilex SRO recognized during fiscal 2015.

Operating income for the Galvanizing Segment increased $0.8 million, or 0.9%, for fiscal 2015 to $88.6 million as compared to $87.8 million for the prior year. Operating margins were 24.7% for fiscal 2015 as compared to 26.2% for fiscal 2014. Operating income was negatively impacted by higher zinc costs of approximately 5.3%.

16

Table of Contents

Corporate expenses were $20.4 million for fiscal 2015 and $32.2 million for fiscal 2014. During fiscal 2015, the Company recognized a $9.1 million gain from the reversal of the contingent liability associated with the acquisition of NLI. Based on the criteria set forth in the acquisition agreement, we no longer believe an additional payment to the previous owners is probable. During fiscal 2014, the Company incurred $5.4 million in acquisition costs as a result of the acquisition of Aquilex SRO (see Note 16 to the consolidated financial statements). Excluding acquisition costs and the gain from the reversal of the NLI contingency, for the year, general corporate expenses would have totaled $29.5 million and represented 3.6% of sales for fiscal 2015 and $26.8 million or 3.6% of sales for fiscal 2014.

Interest

Interest expense for fiscal 2015 decreased 10.0% to $16.6 million as compared to $18.4 million in fiscal 2014. This decrease is the result of lower borrowings during fiscal 2015 stemming from mandatory and elective principal reductions. For additional information on outstanding debt, see Note 12 of the Notes to the Consolidated Financial Statements. As of February 28, 2015, we had outstanding debt of $337.8 million compared to $405.6 million at the end of fiscal 2014. AZZ's debt to equity ratio was 0.80 to 1 at the end of fiscal 2015 compared to 1.08 to 1 at the end of fiscal 2014.

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

We recorded a net gain of $2.5 million from the sale of plant, property and equipment and insurance proceeds during fiscal 2015. The gain is primarily attributable to the property, plant and equipment lost as a result of the fires at our Joliet, Illinois, Goodyear, Arizona and New Orleans, Louisiana galvanizing facilities, offset by insurance proceeds. During fiscal 2014, the Company recorded a net gain of $8.0 million from the sale of plant, property and equipment and insurance proceeds as the result of the fire that occurred at our galvanizing facility in Joliet, Illinois.

Other (Income) Expense

For fiscal 2015, a total of $2.7 million of expense to other (income) expense, net, which was attributable to the demolition and cleanup efforts at our New Orleans, Louisiana and Goodyear, Arizona galvanizing facilities, following fires at the two facilities. For fiscal 2014, we recorded $4.2 million of other income, net, which was primarily attributable to a lawsuit settlement with a former employee due to a non-compete violation.

Provision For Income Taxes

The provision for income taxes reflected an effective tax rate of 27.9% for fiscal 2015 and 36.5% for fiscal 2014. The Company's tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year, but may not be consistent from year to year. The most significant impact on the difference between our statutory U.S. federal income tax rate of 35.0% and our effective tax rate was related to research and development credits taken for prior years.

Liquidity and Capital Resources

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

Net cash provided by operating activities for fiscal 2016 was $143.6 million compared to $118.2 million provided by operating activities for fiscal 2015. The increase in cash provided by operating activities for fiscal 2016 is primarily attributable to higher earnings and a more favorable impact during the year by changes in working capital.

Net cash used in investing activities for fiscal 2016 was $99.3 million compared to net cash used in investing activities of $39.6 million for fiscal 2015. The increase in cash used during fiscal 2016 was attributable to the acquisitions of US Galvanizing, LLC and Alpha Galvanizing Inc., and increased capital expenditures related to the new galvanizing plant in Reno, Nevada.

Net cash used in financing activities for fiscal 2016 was $25.3 million compared to net cash used in financing activities of $82.4 million for fiscal 2015. The decrease in cash used during fiscal 2016 was primarily attributable to reduced net principal payments under our debt agreements.

We consider the undistributed earnings of our foreign subsidiaries as of fiscal year ended February 29, 2016, to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Should the Company decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States. As of fiscal year ended February 29, 2016, the amount of cash associated with

Table of Contents

indefinitely reinvested foreign earnings was approximately $6.5 million. We have not, nor do we anticipate the need to repatriate earnings to the United States to satisfy domestic liquidity needs arising in the ordinary course of business including liquidity needs associated with our domestic debt service requirements. However, the Company may repatriate some cash to the U.S. through settlement of inter-company loans or return of capital distributions in a tax efficient manner.

During fiscal 2016, we spent $100.4 million on capital expenditures including acquisitions, net of cash. The breakdown of capital spending by segment for fiscal 2016, 2015 and 2014 can be found in Note 13 to the Consolidated Financial Statements.

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

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 fiscal year.

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 requires quarterly principal and interest payments commencing on June 30, 2013 until March 27, 2018, at which time the Credit Agreement matures.

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 February 29, 2016, 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 Segment. We attempt to minimize these increases through escalation clauses in customer contracts for copper, aluminum, steel and nickel based alloys, when market conditions allow and through fixed cost contract purchases on zinc. In addition to these measures, we attempt to recover other cost increases through improvements to our manufacturing process, supply chain management, and through increases in prices where competitively feasible.

Off Balance Sheet Transactions and Related Matters

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations) other than the contingent obligations as described in the contingent liability section, or other relationships of the Company with unconsolidated entities or

Table of Contents

other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Commitments

The following summarizes the Company's operating leases, debt and interest payments for the next five fiscal years and thereafter:

	Operating Leases	Debt	Interest	Total
	(In thousands)			
2017	$6,830	$23,192	$12,815	$42,837
2018	4,699	16,629	11,754	33,082
2019	3,458	162,161	8,070	173,689
2020	1,401	—	6,775	8,176
2021	932	125,000	6,775	132,707
Thereafter	2,109	—	—	2,109
Total	$19,429	$326,982	$46,189	$392,600

Commodity pricing

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

Other

At February 29, 2016, the Company had outstanding letters of credit in the amount of $21.9 million. These letters of credit are issued to a portion of the Company's customers in our Energy Segment to cover any potential warranty costs, performance issues, insurance reserves and bid bonds. In addition, as of February 29, 2016, a warranty reserve in the amount of $2.9 million has been provided to offset any future warranty claims.

The Company has been named as a defendant in certain lawsuits that arose in the normal course of business. In the opinion of management, after consulting with legal counsel, the potential liabilities, if any, resulting from these matters would not have a material effect on our financial position, results of operations or cash flow.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements requires us to make estimates that affect the reported value of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and various other factors that we believe are reasonable under the circumstances and form the basis for our conclusions. We continually evaluate the information used to make these estimates as business and economic conditions change. Accounting policies and estimates considered most critical are allowances for doubtful accounts, accruals for contingent liabilities, revenue recognition, impairment of long-lived assets, identifiable intangible assets and goodwill, accounting for income taxes, restricted stock units, performance share units and stock appreciation rights. Actual results may differ from these estimates under different assumptions or conditions. The development and selection of the critical accounting policies and the related disclosures below have been reviewed with the Audit Committee of the Board of Directors. More information regarding significant accounting policies can be found in Note 1 to the Consolidated Financial Statements.

Allowance for Doubtful Accounts – The carrying value of our accounts receivable is continually evaluated based on the likelihood of collection. An allowance is maintained for estimated losses resulting from our customers' inability to make required payments. The allowance is determined by historical experience of uncollected accounts, the level of past due accounts, overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and future expectations of conditions that might impact the collectability of accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

Accruals for Contingent Liabilities - The amounts we record for estimated claims, such as self-insurance programs, warranty, environmental and other contingent liabilities, requires us to make judgments regarding the amount of expenses that will ultimately be incurred. We use past history and experience and other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Actual results may be different than what we estimate. In connection with our acquisition of

Table of Contents

NLI on June 1, 2012, we may be obligated to make an additional payment of up to $20.0 million which will be based on the future financial performance of the NLI business. Based on the cumulative performance to date and current forecast, we do not believe this additional payment is probable or likely and based on that determination, the accrual recorded at the end of fiscal 2014 of $9.1 million was reversed during fiscal 2015.

Revenue Recognition – Revenue is recognized for the Energy Segment upon transfer of title and risk to customers, or based upon the percentage of completion method of accounting for electrical products built to customer specifications and for services under long term contracts. We typically recognize revenue for the Galvanizing Segment at completion of the service unless we specifically agree with the customer to hold its material for a predetermined period of time after the completion of the galvanizing process and, in that circumstance, we invoice and recognize revenue upon shipment. Customer advanced payments presented in the balance sheets arise from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are able to be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

Impairment of Long-Lived Assets, Identifiable Intangible Assets and Goodwill – We record impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than the carrying amounts of those assets. In those situations, impairment losses on long-lived assets are measured based on the excess of the carrying amount over the asset's fair value, generally determined based upon discounted estimates of future cash flows. A significant change in events, circumstances or projected cash flows could result in an impairment of long-lived assets, including identifiable intangible assets. An annual impairment test of goodwill is performed in the fourth quarter of each fiscal year. The test is calculated using the anticipated future cash flows after tax from our operating segments. Based on the present value of the future cash flows, we will determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market, changes in economic conditions of these various markets, raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. Our testing concluded the none of our goodwill was impaired.

Accounting for Income Taxes – Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Generally accepted accounting principles in the United States of America ("GAAP") states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. We may (1) record unrecognized tax benefits as liabilities in accordance with GAAP and (2) adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We currently do not record unrecognized tax benefits related to U.S. federal, state or, foreign tax exposure. We continue to review our tax exposure for any significant need to record unrecognized tax benefits in the future.

Table of Contents

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. We have not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $20.0 million of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. If we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

Restricted Stock Units, Performance Share Units and Stock Appreciation Rights – Our employees and directors are periodically granted restricted stock units, performance share units, and stock appreciation rights by the Compensation Committee of the Board of Directors. The compensation cost of all employee stock-based compensation awards is measured based on the grant-date fair value of those awards and that cost is recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award).
The valuation of stock appreciation rights awards is complex in that there are a number of variables included in the calculation of the value of the award:

- Volatility of our stock price
- Expected term of the stock appreciation rights
- Expected dividend yield
- Risk-free interest rate over the expected term
- Expected forfeitures

We have elected to use a Black-Scholes pricing model in the valuation of our stock appreciation rights. Restricted stock units and performance share units are valued at the stock price on the date of grant.
These variables are developed using a combination of our internal data with respect to stock price volatility and exercise behavior of award holders and information from outside sources. The development of each of these variables requires a significant amount of judgment. Changes in the values of the above variables would result in different valuations and, therefore, different amounts of compensation cost.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Market risk affecting our operations results primarily from changes in interest rates, foreign currency exchange and commodity prices. As of February 29, 2016, we had no involvement with derivative financial instruments.
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. As normal course of business, we manage our exposures to commodity prices, primarily zinc used in our Galvanizing 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 February 29, 2016, the Company had exposure to foreign currency exchange rates related to our operations in Canada, China, Brazil, Poland, and the Netherlands.
We do not believe that a hypothetical change of 10% of the interest rate or currency exchange rate that are currently in effect or a change of 10% of commodity prices would have a significant adverse effect on our results of operations, financial position, or cash flows as long as we are able to pass along the increases in commodity prices to our

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

Item 8. Consolidated Financial Statements and Supplementary Data.

Table of Contents

Index to Consolidated Financial Statements and Schedules

Table of Contents

Report of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
AZZ Inc.
Fort Worth, Texas

We have audited the accompanying consolidated balance sheets of AZZ Inc. as of February 29, 2016 and February 28, 2015 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended February 29, 2016. Our audits also included the financial statement schedule listed in Item 15 of this Form 10-K. We have also audited AZZ Inc.'s internal control over financial reporting as of February 29, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AZZ Inc.'s management is responsible for these financial statements, financial statement schedule, maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements, financial statement schedule and to express an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AZZ Inc. as of February 29, 2016 and February 28, 2015 and the results of its operations and its cash flows for each of the three years in the period ended February 29, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, AZZ Inc. maintained, in all material respects, effective internal control over financial reporting as of February 29, 2016, based on the COSO criteria.

Also in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of US Galvanizing, LLC, whose acquisition was completed on June 5, 2015, or Alpha Galvanizing Inc., whose acquisition was completed on February 1, 2016. US Galvanizing, LLC and Alpha Galvanizing Inc. is included in the consolidated balance sheet of AZZ Inc. as of February 29, 2016 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended. US Galvanizing, LLC constituted approximately 7.3% of the Company's total assets as of February 29, 2016 and 3.6% and 2.9% of revenues and net income, respectively, for the year then ended. Alpha Galvanizing Inc. constituted approximately 1.2% of the Company's total assets as of February 29, 2016 and less than one percent of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of US Galvanizing, LLC or Alpha Galvanizing Inc. because of the timing of the acquisition. Our audit of internal control over financial reporting of AZZ Inc. also did not include an evaluation of the internal control over financial reporting of US Galvanizing, LLC or Alpha Galvanizing Inc.

/s/ BDO USA, LLP

Dallas, Texas
April 21, 2016

Table of Contents

AZZ Inc.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended		
	February 29, 2016	February 28, 2015	February 28, 2014
	(In thousands, except per share data)		
Net Sales	$903,192	$816,687	$751,723
Cost of Sales	673,081	610,991	546,018
Gross Profit	230,111	205,696	205,705
Selling, General and Administrative	107,823	98,871	105,591
Operating Income	122,288	106,825	100,114
Interest Expense	15,155	16,561	18,407
Net Gain On Sale of Property, Plant and Equipment, and Insurance Proceeds	(327)	(2,525)	(8,039)
Other Expense (Income) - net	3,092	2,659	(4,165)
Income Before Income Taxes	104,368	90,130	93,911
Income Tax Expense	27,578	25,187	34,314
Net Income	$76,790	$64,943	$59,597
Earnings Per Common Share			
Basic Earnings Per Share	$2.98	$2.53	$2.34
Diluted Earnings Per Share	$2.96	$2.52	$2.32
Weighted Average Shares Outstanding			
Basic	25,800	25,676	25,514
Diluted	25,937	25,778	25,693

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

Table of Contents

AZZ Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended February 29, 2016	February 28, 2015	February 28, 2014
	(In thousands)		
Net Income	$ 76,790	$ 64,943	$ 59,597
Other Comprehensive Loss:			
Foreign Currency Translation Adjustments - Unrealized Translation Losses	(7,674)	(11,760)	(7,775)
Interest Rate Swap, Net of Income Tax of $29, $29 and $29, respectively.	(54)	(54)	(54)
Other Comprehensive Loss	(7,728)	(11,814)	(7,829)
Comprehensive Income	$ 69,062	$ 53,129	$ 51,768

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

AZZ Inc.
CONSOLIDATED BALANCE SHEETS

Assets	February 29, 2016	February 28, 2015
	(In thousands, except per share data)	
Current assets:		
Cash and cash equivalents	$40,191	$22,527
Accounts receivable, net of allowance for doubtful accounts of $264 and $1,472 in 2016 and 2015, respectively	131,416	125,638
Inventories - net	102,135	107,697
Costs and estimated earnings in excess of billings on uncompleted contracts	32,287	33,676
Deferred income tax assets	200	4,526
Prepaid expenses and other	3,105	4,570
Total current assets	309,334	298,634
Property, plant, and equipment, net	226,333	196,583
Goodwill	292,527	279,074
Intangibles and other assets	155,177	162,623
	$983,371	$936,914
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$46,748	$49,580
Income tax payable	2,697	2,888
Accrued salaries and wages	30,473	17,046
Other accrued liabilities	20,406	18,287
Customer advance payment	15,652	28,401
Profit sharing	—	6,400
Billings in excess of costs and estimated earnings on uncompleted contracts	9,237	4,674
Debt due within one year	23,192	21,866
Total current liabilities	148,405	149,142
Debt due after one year	303,790	315,982
Deferred income tax liabilities	49,960	51,738
Total liabilities	502,155	516,862
Commitments and Contingencies		
Shareholders' equity:		
Common Stock, $1.00 par value; 100,000 shares authorized; 25,874 shares issued and outstanding at February 29, 2016 and 25,732 at February 28, 2015	25,874	25,732
Capital in excess of par value	35,148	27,706
Retained earnings	450,754	389,446
Accumulated other comprehensive loss	(30,560)	(22,832)
Total shareholders' equity	481,216	420,052
	$983,371	$936,914

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

AZZ Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 29, 2016	February 28, 2015	February 28, 2014
	(In thousands)		
Cash flows from operating activities:			
Net income	$76,790	$64,943	$59,597
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	47,417	46,089	43,305
Deferred income taxes	2,707	15,818	842
Net loss on disposition of property, plant & equipment due to realignment	286	2,651	—
Net gain on sale of property, plant & equipment and insurance proceeds	(327)	(2,525)	(8,039)
Share-based compensation expense	4,538	4,080	3,703
Amortization of deferred borrowing costs	1,347	1,431	1,421
Provision for doubtful accounts	(1,072)	458	(116)
Effects of changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(843)	(9,382)	35,955
Inventories	11,124	(879)	(6,209)
Prepaid expenses and other assets	1,996	5,543	(6,590)
Net change in billings related to costs and estimated earnings on uncompleted contracts	5,739	(5,635)	(9,732)
Accounts payable	(2,236)	11,026	(4,150)
Other accrued liabilities and income taxes payable	(3,877)	(15,460)	(2,712)
Net cash provided by operating activities:	143,589	118,157	107,275
Cash flows from investing activities:			
Proceeds from the sale or insurance settlement of property, plant, and equipment	1,137	1,330	8,205
Acquisition of subsidiaries, net of cash acquired	(60,584)	(11,518)	(275,702)
Purchases of property, plant and equipment	(39,861)	(29,377)	(43,472)
Net cash used in investing activities:	(99,308)	(39,565)	(310,969)
Cash flows from financing activities:			
Excess tax benefits from share-based compensation	1,025	259	1,602
Proceeds from revolving loan	181,481	10,977	197,000
Payments on revolving loan	(170,561)	(57,905)	(60,000)
Proceeds from long-term debt	—	—	75,000
Payments on long-term debt	(21,786)	(20,848)	(17,098)
Debt acquisition costs	—	—	(5,881)
Payment of dividends	(15,482)	(14,897)	(14,290)
Net cash (used in) provided by financing activities:	(25,323)	(82,414)	176,333
Effect of exchange rate changes on cash and cash equivalents	(1,294)	(1,216)	(672)
Net change in cash and cash equivalents	17,664	(5,038)	(28,033)
Cash and cash equivalents, beginning of year	22,527	27,565	55,598
Cash and cash equivalents, end of year	$40,191	$22,527	$27,565
Supplemental disclosures of cash flow information:			
Cash paid for interest	$14,228	$15,613	$16,500
Cash paid for income taxes	$21,574	$15,264	$26,332

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

27

Table of Contents

AZZ Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
	(In thousands)					
Balance at February 28, 2013	25,376	$25,376	$17,653	$294,093	$ (3,189)	$333,933
Stock compensation	14	14	3,689	—	—	3,703
Restricted Stock Units	56	56	(1,393)	—	—	(1,337)
Stock issued for SARs	68	68	(1,117)	—	—	(1,049)
Employee Stock Purchase Plan	63	63	1,519	—	—	1,582
Excess tax benefits from share-based compensation	—	—	1,603	—	—	1,603
Cash dividend paid	—	—	—	(14,290)	—	(14,290)
Net income	—	—	—	59,597	—	59,597
Foreign currency translation	—	—	—	—	(7,775)	(7,775)
Interest rate swap, net of $29 of income tax	—	—	—	—	(54)	(54)
Balance at February 28, 2014	25,577	$25,577	$21,954	$339,400	$ (11,018)	$375,913
Stock compensation	16	16	4,064	—	—	4,080
Restricted Stock Units	21	21	(497)	—	—	(476)
Stock issued for SARs	40	40	(371)	—	—	(331)
Employee Stock Purchase Plan	78	78	2,297	—	—	2,375
Excess tax benefits from share-based compensation	—	—	259	—	—	259
Cash dividend paid	—	—	—	(14,897)	—	(14,897)
Net income	—	—	—	64,943	—	64,943
Foreign currency translation	—	—	—	—	(11,760)	(11,760)
Interest rate swap, net of $29 of income tax	—	—	—	—	(54)	(54)
Balance at February 28, 2015	25,732	$25,732	$27,706	$389,446	$ (22,832)	$420,052
Stock compensation	15	15	4,523	—	—	4,538
Restricted Stock Units	17	17	(390)	—	—	(373)
Stock issued for SARs	41	41	(132)	—	—	(91)
Employee Stock Purchase Plan	69	69	2,416	—	—	2,485
Excess tax benefits from share-based compensation	—	—	1,025	—	—	1,025
Cash dividend paid	—	—	—	(15,482)	—	(15,482)
Net income	—	—	—	76,790	—	76,790
Foreign currency translation	—	—	—	—	(7,674)	(7,674)
Interest rate swap, net of $29 of income tax	—	—	—	—	(54)	(54)
Balance at February 29, 2016	25,874	$25,874	$35,148	$450,754	$ (30,560)	$481,216

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

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Organization-AZZ Inc. (the “Company” “AZZ” or “We”) operates primarily in the United States of America and Canada and has recently begun operating in China, Brazil, Poland and the Netherlands. Information about the Company's operations by segment is included in Note 13 to the consolidated financial statements.

Basis of consolidation—The consolidated financial statements were prepared in accordance with the accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates—The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk—Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the United States and Canada, as well as Europe, China and Brazil. The Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's banking relationships and has not experienced any losses in such accounts. We believe we are not exposed to any significant credit risk related to cash and cash equivalents.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the Company’s diversity by virtue of two operating segments, the number of customers, and the absence of a concentration of trade accounts receivable in a small number of customers. The Company performs continuous evaluations of the collectability of trade accounts receivable and allowance for doubtful accounts based upon historical losses, economic conditions and customer specific events. After all collection efforts are exhausted and an account is deemed uncollectible, it is written off against the allowance for doubtful accounts. Accounts receivable written off, net of recoveries, in fiscal 2016, 2015 and 2014 were approximately $0.2 million, $0.7 million and $0.3 million, respectively. Collateral is usually not required from customers as a condition of sale.

Revenue recognition—The Company recognizes revenue for the Energy Segment upon transfer of title and risk to customer or based upon the percentage of completion method of accounting for electrical products built to customer specifications and services under long-term contracts. We typically recognize revenue for the Galvanizing Segment at completion of the service unless we specifically agree with the customer to hold its material for a predetermined period of time after the completion of the galvanizing process and, in that circumstance, we invoice and recognize revenue upon shipment. Customer advanced payments presented in the balance sheets arise from advanced payments received from our customers prior to shipment of the product and are not related to revenue recognized under the percentage of completion method. The extent of progress for revenue recognized using the percentage of completion method is measured by the ratio of contract costs incurred to date to total estimated contract costs at completion. Contract costs include direct labor and material and certain indirect costs. Selling, general and administrative costs are charged to expense as incurred.

Provisions for estimated losses, if any, on uncompleted contracts are made in the period in which such losses are able to be determined. The assumptions made in determining the estimated cost could differ from actual performance resulting in a different outcome for profits or losses than anticipated.

Cash and cash equivalents—The Company considers cash and cash equivalents to include cash on hand, deposits with banks and all highly liquid investments with an original maturity of three months or less.

Inventories—Cost is determined principally using a weighted-average method for the Energy Segment and the first-in-first-out (FIFO) method for the Galvanizing Segment.

Property, plant and equipment—For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Buildings and structures	10-25 years
Machinery and equipment	3-15 years
Furniture and fixtures	3-15 years
Automotive equipment	3 years
Computers and software	3 years

Maintenance and repairs are charged to expense as incurred; renewals and betterments that significantly extend the useful life of the asset are capitalized.

Long-lived assets, intangible assets and goodwill—Purchased intangible assets included on the balance sheets are comprised of customer lists, backlogs, engineering drawings and non-compete agreements. Such intangible assets are being amortized using the straight-line method over the estimated useful lives of the assets ranging from two to nineteen years. The Company records impairment losses on long-lived assets, including identifiable intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted projected cash flows associated with those assets are less than their carrying amount. In those situations, impairment loss on a long-lived asset is measured based on the excess of the carrying amount of the asset over the asset's fair value. For goodwill, the Company performs an annual impairment test on December 31st each year or as indicators are present. The test is calculated using the anticipated future cash flows after tax from our operating segments, which includes the impact of our corporate related expenses. Based on the present value of the future cash flows, we determine whether impairment may exist. A significant change in projected cash flows or cost of capital for future years could result in an impairment of goodwill in future years. Variables impacting future cash flows include, but are not limited to, the level of customer demand for and response to products and services we offer to the power generation market, the electrical transmission and distribution markets, the general industrial market and the hot dip galvanizing market; changes in economic conditions of these various markets; raw material and natural gas costs and availability of experienced labor and management to implement our growth strategies. As of February 29, 2016, no impairment of long-lived assets, intangible assets or goodwill was determined.

Debt issue costs—Debt issue costs, included in other assets, are amortized using the effective interest rate method over the term of the debt.

Income taxes—We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

As applicable, we record uncertain tax positions in accordance with GAAP on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We currently do not have any unrecognized tax benefits to record related to U.S. federal, state or, foreign tax exposure. We continue to review our tax exposure for any significant need to record unrecognized tax benefits in the future.

The Company is subject to taxation in the U.S. and various state, provincial and local and foreign jurisdictions. With few exceptions, as of fiscal 2016, the Company is no longer subject to U.S. federal or state examinations by tax

authorities for years before fiscal 2013.

Share-based compensation—The Company has granted restricted stock units awards, performance share units and stock appreciation rights for a fixed number of shares to employees and directors. A discussion of share-based compensation can be found in Note 11 to the Consolidated Financial Statements.

Financial instruments—Fair value is an exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Hierarchy Levels 1, 2, or 3 are terms for the priority of inputs to valuation

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

techniques used to measure fair value. Hierarchy Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Hierarchy Level 2 inputs are inputs other than quoted prices included with Level 1 that are directly or indirectly observable for the asset or liability. Hierarchy Level 3 inputs are inputs that are not observable in the market.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and debt. Our financial instruments are presented at fair value in our consolidated balance sheets, with the exception of our outstanding Senior Notes. For fiscal 2016 and 2015 the fair value of our senior outstanding notes, as described in Note 12 to the Consolidated Financial Statements, was approximately $154.7 million and $164.4 million, respectively. These fair values were determined using the discounted cash flow at the market rate as well as the applicable market interest rates classified as Level 2 inputs. During fiscal 2016 a principal payment was made in the amount of $14.3 million related to the $100.0 million unsecured Senior Notes due March 31, 2018, which accounts for a portion of the decrease in fair value for the compared periods in conjunction with lower market interest rates.

Derivative financial instruments—From time to time, the Company uses derivatives to manage interest rate risk. The Company's policy is to use derivatives for risk management purposes only, which includes maintaining the ratio between the Company's fixed and floating rate debt obligations that management deems appropriate, and prohibits entering into such contracts for trading purposes. The Company enters into derivatives only with counterparties (primarily financial institutions) which have substantial financial wherewithal to minimize credit risk. As the result of the recent global financial crisis, a number of financial institutions have failed or required government assistance, and counterparties considered substantial may develop credit risk. The amount of gains or losses from the use of derivative financial instruments has not been and is not expected to be material to the Company's consolidated financial statements. As of February 29, 2016, the Company had no derivative financial instruments.

Warranty reserves—Within other accrued liabilities, a reserve has been established to provide for the estimated future cost of warranties on a portion of the Company's delivered products. Management periodically reviews the reserves, and adjustments are made accordingly. A provision for warranty on products is made on the basis of the Company's historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship.

The following is a roll-forward of amounts accrued for warranties (in thousands):

Balance at February 28, 2013	$2,073
Warranty costs incurred	(2,246)
Additions charged to income	1,511
Balance at February 28, 2014	$1,338
Warranty costs incurred	(1,294)
Additions charged to income	2,243
Balance at February 28, 2015	$2,287
Warranty costs incurred	(2,570)
Additions charged to income	3,198
Balance at February 29, 2016	$2,915

Accumulated Other Comprehensive Income (Loss)—On January 21, 2011, we entered into a Note Purchase Agreement, (the "2011 Agreement") and incurred fixed rate, long-term indebtedness of $125.0 million in relation to the 2011 Agreement. See Note 12 to the Consolidated Financial Statements. In anticipation of the issuance of Senior Notes thereunder, we entered into a treasury lock hedging transaction with Bank of America Merrill Lynch (BAML) in order to eliminate the variability of cash flows on the forecasted fixed rate coupon of the debt during the pre-issuance period. The hedging transaction settled during the Company's third fiscal quarter of fiscal 2011, and the Company received a payment from BAML in the amount of $0.8 million resulting therefrom. The notional value of the hedge

was $75.0 million and qualified for hedge accounting as a cash flow hedge. The gain on the settlement was recorded as a component of Accumulated Other Comprehensive Income (Loss) and is being amortized to interest expense in the form of a credit over the life of the 10 year loan. Amortization of this gain to interest expense was recorded in a credit of $0.1 million for fiscal 2016, 2015, and 2014.

Accumulated Other Comprehensive Income (Loss) also includes foreign currency translation adjustments from our foreign subsidiaries consisting of Aquilex SRO, AZZ Trading (Shanghai), Blenkhorn and Sawle, Galvan, Galvcast and G3.

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation—The local currency is the functional currency for the Company's foreign operations. Related assets and liabilities are translated into United States dollars at exchange rates existing at the balance sheet date, and revenues and expenses are translated at weighted-average exchange rates. The foreign currency translation adjustment is recorded as a separate component of shareholders' equity and is included in accumulated other comprehensive income (loss).

Accruals for Contingent Liabilities— The amounts we record for estimated claims, such as self-insurance programs, warranty, environmental and other contingent liabilities, requires us to make judgments regarding the amount of expenses that will ultimately be incurred. We use past history and experience and other specific circumstances surrounding these claims in evaluating the amount of liability that should be recorded. Actual results may be different than what we estimate. In connection with our acquisition of NLI on June 1, 2012, we may be obligated to make an additional payment of up to $20.0 million which will be based on the future financial performance of the NLI business. Based on the cumulative performance to date and current forecast, we do not believe this additional payment will be probable and based on that determination, the accrual recorded at the end of fiscal 2014 of $9.1 million was reversed during fiscal 2015.

New Accounting Pronouncements

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

In 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. Inventories

Inventories (net) consisted of the following at February 29, 2016 and February 28, 2015:

	2016	2015

	(In thousands)	
Raw materials	$66,548	$62,794
Work-in-process	28,539	42,001
Finished goods	7,048	2,902
	$102,135	$107,697

Table of Contents

3. Property, Plant, and Equipment

Property, plant and equipment consisted of the following at February 29, 2016 and February 28, 2015:

	2016	2015
	(In thousands)	
Land	$21,265	$16,004
Building and structures	141,370	122,539
Machinery and equipment	215,796	184,921
Furniture, fixtures, software and computers	22,237	21,716
Automotive equipment	3,206	2,351
Construction in progress	12,827	12,193
	416,701	359,724
Less accumulated depreciation	(190,368)	(163,141)
Net property, plant, and equipment	$226,333	$196,583

Depreciation expense was $31.2 million, $28.1 million, and $25.1 million for fiscal 2016, 2015, and 2014, respectively.

4. Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consisted of the following at February 29, 2016 and February 28, 2015:

	2016	2015
	(In thousands)	
Costs incurred on uncompleted contracts	$164,809	$126,882
Estimated earnings	79,171	50,487
	243,980	177,369
Less billings to date	220,930	148,367
	$23,050	$29,002

The amounts noted above are included in the accompanying consolidated balance sheets under the following captions:

	2016	2015
	(In thousands)	
Cost and estimated earnings in excess of billings on uncompleted contracts	$32,287	$33,676
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,237)	(4,674)
	$23,050	$29,002

Table of Contents

5. Other accrued liabilities

Other accrued liabilities consisted of the following at February 29, 2016 and February 28, 2015:

	2016	2015
	(In thousands)	
Accrued interest	$2,356	$2,878
Tenant improvements	507	745
Accrued warranty	2,915	2,287
Commissions	2,685	2,540
Personnel expenses	8,456	6,034
Group medical insurance	1,699	1,502
Other	1,788	2,301
	$20,406	$18,287

6. Realignment Costs

As part of AZZ's ongoing efforts to optimize cost and effectiveness, during fiscal 2015, the Company underwent a review of its current management structure with respect to its segment and corporate operations and recorded realignment costs related to severance associated with changes needed to improve management efficiency and accountability. We also reserved for the disposition and write off of certain fixed assets in connection with the realignment. The total cost related to the realignment is estimated to be $4.0 million. One-time severance costs total $1.3 million and is included in Selling, General and Administrative Expense. The loss recognized from the disposition of certain fixed assets total $2.7 million and is included in Costs of Sales.

During 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 for the year ended February 29, 2016 and February 28, 2015:

	2016	2015
	(in thousands)	
Realignment cost accrued	$456	$3,952
Realignment costs utilized	(832)	(3,496)
Additions to reserve	437	—
	$61	$456

7. Employee benefit plans

The Company has a profit sharing plan and 401(k) match plan covering substantially all of its employees. Under the provisions of the plan, the Company contributes amounts as authorized by the Board of Directors. Total contributions to the profit sharing plan and the Company’s 401(k) match plan, were $4.9 million, $10.0 million, and $10.4 million for fiscal 2016, 2015, and 2014, respectively. As of March 1, 2015, the Company discontinued its profit sharing plan for its employees and implemented a new employee bonus program as a short-term incentive for performance. The accrual for the new employee bonus plan is presented in Accrued Salaries and Wages on the balance sheet for

reporting periods subsequent to March 1, 2015.

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Income taxes

The provision for income taxes consists of:

	2016	2015	2014
Income before income taxes:			
Domestic	$95,554	$76,434	$83,495
Foreign	8,814	13,696	10,416
Income before income taxes	$104,368	$90,130	$93,911
Current provision (benefit):			
Federal	$28,099	$3,770	$28,901
Foreign	2,706	3,025	1,903
State and Local	(337)	2,575	4,382
Total current provision for income taxes	$30,468	$9,370	$35,186
Deferred provision (benefit):			
Federal	$(5,813)	$15,455	$(2,143)
Foreign	(123)	(858)	1,230
State and Local	3,046	1,220	41
Total deferred provision (benefit) for income taxes	$(2,890)	$15,817	$(872)
Total provision for income taxes	$27,578	$25,187	$34,314

A reconciliation from the federal statutory income tax rate to the effective income tax rate is as follows:

	2016	2015	2014
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
Permanent differences	0.4	0.6	1.3
State income taxes, net of federal income tax benefit	(1.5)	2.7	3.0
Benefit of Section 199 of the Code, manufacturing deduction	(2.7)	(2.4)	(2.2)
Valuation allowance	(1.2)	(3.4)	—
Tax credits	(3.2)	(3.4)	—
Foreign tax rate differential	(0.4)	(0.7)	(0.6)
Other	—	(0.5)	—
Effective income tax rate	26.4 %	27.9 %	36.5 %

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred federal and state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income tax liability are as follows:

	2016	2015
	(In thousands)	
Deferred income tax assets:		
Employee related items	$5,652	$4,690
Inventories	1,106	1,080
Accrued warranty	1,008	893
Accounts receivable	173	565
Net operating loss carry forward	2,903	1,919
	10,842	9,147
Less: valuation allowance	(648)	(1,588)
Total deferred income tax assets	10,194	7,559
Deferred income tax liabilities:		
Depreciation methods and property basis differences	(31,008)	(28,611)
Other assets and tax-deductible goodwill	(28,946)	(26,161)
Total deferred income tax liabilities	(59,954)	(54,772)
Net deferred income tax liabilities	$(49,760)	$(47,213)

In general, it is our practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. As of fiscal year end 2016, we have not made a provision for U.S. or additional foreign withholding taxes on approximately $20.0 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

The following table summarizes the Net Operating Loss Carry forward:

	2016	2015
	(In thousands)	
Federal	$—	$—
State	$2,903	$1,919
Foreign	$—	$—

As of February 29, 2016, the Company had pretax state NOL carry forwards of $36.7 million which, if unused, will begin to expire in 2025.

As of fiscal year end 2016 and 2015, a portion of our deferred tax assets were the result of state NOL carry forwards. We believe that it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of $0.6 million and $1.6 million as of fiscal year end 2016 and 2015, respectively. For the year ended February 29, 2016, we recorded a net valuation allowance release of $1.0 million on the basis of local tax authority reassessment of the amount which was realized in local tax jurisdictions and on local income tax returns.

We will review this risk within the next fiscal year and may conclude that a significant portion of the valuation allowance will no longer be needed. The tax benefits related to any reversal of the valuation allowance will be recognized as a reduction of income tax expense.

36

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Goodwill and intangible assets

Goodwill is not amortized but is subject to annual impairment tests. Other intangible assets are amortized over their estimated useful lives.

Changes in goodwill by segment during the years ended February 29, 2016 and February 28, 2015 are as follows:

Segment	March 1, 2015	Acquisitions	Foreign Exchange Translation	February 29, 2016
	(In thousands)			
Galvanizing	$95,538	$ 15,576	$ (1,800)	$ 109,314
Energy	183,536	—	(323)	183,213
Total	$279,074	$ 15,576	$ (2,123)	$ 292,527

Segment	March 1, 2014	Acquisitions	Foreign Exchange Translation	February 28, 2015
	(In thousands)			
Galvanizing	$94,731	$ 3,306	$ (2,499)	$ 95,538
Energy	183,825	807	(1,096)	183,536
Total	$278,556	$ 4,113	$ (3,595)	$ 279,074

The Company completes its annual impairment analysis of goodwill on December 31st of each year. As a result, the Company determined that there was no impairment of goodwill.

Amortizable intangible assets consisted of the following at February 29, 2016 and February 28, 2015:

	2016	2015
	(In thousands)	
Amortizable intangible assets		
Customer related intangibles	$169,637	$159,235
Non-compete agreements	5,596	5,715
Trademarks	4,569	5,042
Technology	7,400	7,400
Certifications	—	209
Engineering drawings	24,600	24,600
Backlog	7,600	8,355
	219,402	210,556
Less accumulated amortization	(71,201)	(56,699)
	$148,201	$153,857

The Company recorded amortization expense of $16.2 million, $18.0 million and $18.2 million for fiscal 2016, 2015 and 2014, respectively. The following table projects the estimated amortization expense for the five succeeding fiscal years and thereafter.

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	(In thousands)
2017	$ 16,490
2018	15,669
2019	15,032
2020	14,582
2021	14,417
Thereafter	72,011
Total	$ 148,201

10. Earnings per share

Basic earnings per share is based on the weighted average number of shares outstanding during each year. Diluted earnings per share were similarly computed but have been adjusted for the dilutive effect of the weighted average number of restricted stock units, performance share units and stock appreciation rights outstanding. The shares and earnings per share were adjusted to reflect our two for one stock split effected in the form of a share dividend approved by the Board of Directors on June 28, 2012, and paid on July 30, 2012. All share data has been retroactively restated.

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

	Year Ended		
	2016	2015	2014
	(In thousands, except per share data)		
Numerator:			
Net income for basic and diluted earnings per common share	$76,790	$64,943	$59,597
Denominator:			
Denominator for basic earnings per common share–weighted average shares	25,800	25,676	25,514
Effect of dilutive securities:			
Employee and Director stock awards	137	102	179
Denominator for diluted earnings per common share	25,937	25,778	25,693
Earnings per share basic and diluted:			
Basic earnings per common share	$2.98	$2.53	$2.34
Diluted earnings per common share	$2.96	$2.52	$2.32

For fiscal 2016, the company had no stock appreciation rights that were excluded from the computation of diluted earnings per share. Stock appreciation rights of approximately 80,683 and 113,887 were excluded from the computation of diluted earnings per share for fiscal 2015 and 2014, respectively, as the effect would be anti-dilutive.

11. Share-based compensation

The Company has one share-based compensation plan, the 2014 Long Term Incentive Plan (the “Plan”). The purpose of the Plan is to promote the growth and prosperity of the Company by permitting the Company to grant to its employees, directors and advisors various types of restricted stock unit awards, performance share units, and stock appreciation rights to purchase common stock of the Company. The maximum number of shares that may be issued under the Plan is 1,500,000 shares. As of February 29, 2016, the Company had approximately 1,389,563 shares reserved for future issuance under the Plan.

38

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Unit Awards
Restricted stock unit awards are valued at the market price of our common stock on the grant date. These awards accrue dividend equivalents under the Plan and generally have a three year cliff vesting schedule but may vest earlier in accordance with the Plan's accelerated vesting provisions.
Activity in our non-vested restricted stock unit awards for the year ended February 29, 2016 was as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 28, 2015	77,446	$ 41.31
Granted	48,113	46.82
Vested	(24,579)	36.52
Forfeited	(2,287)	44.31
Non-Vested Balance as of February 29, 2016	98,693	$ 45.03

The total fair value of restricted stock units vested during fiscal years 2016, 2015, and 2014 was $0.9 million, $0.8 million and $1.9 million, respectively. For fiscal years ended 2016, 2015 and 2014, there were 98,693, 77,446 and 70,352, respectively, of non-vested restricted stock units outstanding with weighted average grant date fair values of $45.03, $41.31 and $34.95, respectively.
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, giving effect to any dividends paid during such time, in comparison to a defined industry peer group as set forth in the agreement.
Activity in our non-vested performance stock unit awards for the year ended February 29, 2016 was as follows:

	Performance Stock Units	Weighted Average Grant Date Fair Value
Non-Vested Balance as of February 28, 2015	—	$ —
Granted	28,553	46.65
Vested	—	—
Forfeited	(1,138)	46.65
Non-Vested Balance as of February 29, 2016	27,415	$ 46.65

Stock Appreciation Rights
Stock appreciation rights awards are granted with an exercise price equal to the market value of our common stock on the date of grant. These awards generally have a contractual term of 7 years and vest ratably over a period of 3 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 awards activity for the years ended February 29, 2016, February 28, 2015 and February 28, 2014 were as follows:

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2016		2015		2014	
	SAR's	Weighted Average Exercise Price	SAR's	Weighted Average Exercise Price	SAR's	Weighted Average Exercise Price
Outstanding at beginning of year	376,982	$ 31.27	396,174	$ 26.64	439,863	$ 19.12
Granted	—	—	126,532	43.92	116,032	45.20
Exercised	(59,441)	14.67	(98,942)	22.79	(159,721)	19.19
Forfeited	(4,793)	44.56	(46,782)	44.14	—	—
Outstanding at end of year	312,748	$ 34.23	376,982	$ 31.27	396,174	$ 26.64
Exercisable at end of year	217,961	$ 29.83	204,107	$ 21.55	153,343	$ 15.32
Weighted average fair value for the fiscal year indicated of SARs granted during such year		$ —		$ 16.94		$ 13.68

The average remaining contractual term for those stock appreciation rights outstanding as of February 29, 2016 was 3.51 years, with an aggregate intrinsic value of $15.8 million. The average remaining contractual terms for those stock appreciation rights that are exercisable as of February 29, 2016 was 2.94 years, with an aggregate intrinsic value of $11.0 million. For the year ended February 29, 2016, the intrinsic value of stock appreciation rights exercised was $3.0 million.

The following table summarizes additional information about stock appreciation rights outstanding at February 29, 2016.

Range of Exercise Prices	Total SAR's	Average Remaining Life	Weighted Average Exercise Price	SAR's Currently Exercisable	Weighted Average Exercise Price
$9.06	5,174	0.00	$ 9.06	5,174	$ 9.06
$15.84	52,958	1.00	$ 15.84	52,958	$ 15.84
$20.91	38,820	2.00	$ 20.91	38,820	$ 20.91
$25.67	31,328	3.00	$ 25.67	31,328	$ 25.67
$39.65	950	4.52	$ 39.65	475	$ 39.65
$43.92	107,954	5.01	$ 43.92	43,135	$ 43.92
$45.26	40,000	4.68	$ 45.26	20,000	$ 45.26
$45.36	34,805	4.00	$ 45.36	25,565	$ 45.36
$46.43	759	4.72	$ 46.43	506	$ 46.43
$ 9.06 - $46.43	312,748	3.51	$ 34.23	217,961	$ 29.83

Beginning in fiscal 2016, the Company is no longer issuing SAR's as a form of share-based compensation, therefore the Black-Scholes option pricing model was not used during fiscal 2016. Assumptions used in the Black-Scholes option pricing model for fiscal years 2015 and 2014 were as follows for all stock appreciation rights:

	2015	2014
Expected term in years	4.5	4.5
Expected dividend yield	1.20% – 1.32%	1.21% – 1.49%
Expected price volatility	35.39% – 40.00%	36.34% – 53.00%
Risk-free interest rate	2.32 – 2.73	0.75 – 2.98

40

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Directors Grants
The Company granted each of its independent directors a total of 1,915, 2,000 and 2,000 shares of its common stock during fiscal years 2016, 2015 and 2014, respectively. These common stock grants were valued at $52.21, $44.90 and $36.70 per share for fiscal years 2016, 2015 and 2014, respectively, which was the market price of our common stock on the respective grant dates.
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.
Share-based compensation expense and related income tax benefits related to all the plans listed above were as follows for the fiscal years ending February 29, 2016, February 28, 2015 and February 28, 2014:

Fiscal	2016	2015	2014
	(In thousands)		
Compensation expense	$4,538	$4,080	$3,703
Income tax benefits	$1,588	$1,428	$1,296

Unrecognized compensation cost related to all the above at February 29, 2016 totaled $4.8 million. These costs are expected to be recognized over a weighted period of 1.66 years.
The actual tax benefit realized for tax deductions from share-based compensation during each of these fiscal years totaled $1.0 million, $0.3 million and $1.6 million, respectively.
The Company’s policy is to issue shares required under these plans from the Company’s treasury shares or from the Company’s authorized but unissued shares. The Company has no formal or informal plan to repurchase shares on the open market to satisfy these requirements.

12. Debt
Following is a summary of debt at February 29, 2016 and February 28, 2015:

Debt consisted of the following:	2016	2015
	(In thousands)	
Senior Notes, due in balloon payment in January 2021	$125,000	$125,000
Senior Notes, due in annual installments of $14,286 beginning in March 2012 through March 2018	$42,857	$57,143
Term Note, due in quarterly installments beginning in June 2013 through March 2018	$58,125	$65,625
Revolving line of credit with bank	$101,000	$90,080
Total debt	$326,982	$337,848
Less amount due within one year	$(23,192)	$(21,866)
Total long-term debt	$303,790	$315,982

On March 27, 2013, we entered into a Credit Agreement (the “Credit Agreement”) with Bank of America and other lenders. The Credit Agreement provided for a $75.0 million term facility and a $225.0 million revolving credit facility that included a $75.0 million “accordion” feature. The Credit Agreement is used to provide for working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

41

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 commencing on June 30, 2013 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 February 29, 2016, we had $101.0 million of outstanding debt against the revolving credit facility provided and letters of credit outstanding in the amount of $21.9 million, which left approximately $102.1 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 February 29, 2016, the Company was in compliance with all of its debt covenants.

Maturities of debt are as follows:

Fiscal Year	(In thousands)
2017	$ 23,192
2018	16,629
2019	162,161
2020	—
2021	125,000
Thereafter	—
Total	$ 326,982

42

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Operating segments

Information regarding operations and assets by segment was as follows:

	2016	2015	2014
Net sales:	(In thousands)		
Energy	$500,830	$458,339	$416,106
Galvanizing	402,362	358,348	335,617
	$903,192	$816,687	$751,723
Operating income:			
Energy	$58,471	$38,703	$44,513
Galvanizing	94,766	88,562	87,808
Corporate	(30,949)	(20,440)	(32,207)
Total Operating Income	122,288	106,825	100,114
Interest expense	15,155	16,561	18,407
Net gain on sale of property, plant and equipment and insurance proceeds	(327)	(2,525)	(8,039)
Other (income) expense, net	3,092	2,659	(4,165)
Income before income taxes	$104,368	$90,130	$93,911
Depreciation and amortization:			
Energy	$19,131	$20,725	$19,959
Galvanizing	26,863	23,964	22,008
Corporate	1,423	1,400	1,338
	$47,417	$46,089	$43,305
Expenditures for acquisitions, net of cash, and property, plant and equipment:			
Energy	$12,863	$10,647	$284,514
Galvanizing	86,724	26,928	33,282
Corporate	858	3,320	1,378
	$100,445	$40,895	$319,174
Total assets:			
Energy	$500,078	$523,247	$542,809
Galvanizing	436,471	378,823	378,358
Corporate	46,822	34,844	32,086
	$983,371	$936,914	$953,253
Geographic net sales:			
United States	$724,559	$631,544	$601,674
Other countries	179,832	189,855	150,049
Eliminations	(1,199)	(4,712)	—
	$903,192	$816,687	$751,723
Property, plant and equipment, net:			
United States	$204,587	$173,712	$171,727
Canada	17,868	20,289	23,779

Other Countries	3,878	2,582	2,133
	$226,333	$196,583	$197,639

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and contingencies

Leases

The Company is obligated under various operating leases for property, plant and equipment. As February 29, 2016, future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year are summarized in the below table:

Fiscal Year:	(In thousands)
2017	$ 6,830
2018	4,699
2019	3,458
2020	1,401
2021	932
Thereafter	2,109
Total	$ 19,429

Rent expense was $13.9 million, $14.1 million and $11.0 million for fiscal years 2016, 2015 and 2014, respectively. Rent expense includes various equipment rentals that do not meet the terms of a non-cancelable lease or that have initial terms of less than one year.

Commodity pricing

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

Other

At February 29, 2016, the Company had outstanding letters of credit in the amount of $21.9 million. These letters of credit were issued to customers served by our Energy Segment to cover insurance reserves and any potential warranty costs and performance issues and bid bonds. In addition, as of February 29, 2016, a warranty reserve in the amount of $2.9 million was established to offset any future warranty claims.

15. Selected quarterly financial data (Unaudited)

	Quarter ended			
	May 31, 2015	August 31, 2015	November 30, 2015	February 29, 2016
	(in thousands, except per share data)			
Net sales	$228,888	$214,246	$ 242,447	$ 217,611
Gross profit	59,304	53,505	62,448	54,854
Net income	19,924	17,243	23,547	16,076
Basic earnings per share	0.77	0.67	0.91	0.62
Diluted earnings per share	0.77	0.67	0.91	0.62

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Quarter ended			
	May 31, 2014	August 31, 2014	November 30, 2014	February 28, 2015
	(in thousands, except per share data)			
Net sales	$216,126	$ 193,416	$ 224,833	$ 182,312
Gross profit	55,389	42,100	60,775	47,432
Net income	14,925	13,769	19,965	16,283
Basic earnings per share	0.58	0.54	0.78	0.63
Diluted earnings per share	0.58	0.53	0.77	0.63

16. Acquisitions

On February 1, 2016, we completed our acquisition of substantially all the assets of Alpha Galvanizing Inc., an Atkinson, Nebraska-based business unit of Olson Industries, Inc. ("Alpha Galvanizing"). Alpha Galvanizing has served steel fabrication customers that manufacture electrical utility poles, agricultural machinery and industrial manufacturing components since 1996. Alpha Galvanizing was acquired to expand the footprint of AZZ Galvanizing and to support AZZ’s locations in Minnesota and Denver, Colorado, as well as serve customers in the upper Midwest region.

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

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. US Galvanizing, LLC was acquired to expand AZZ’s Southern locations.

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

On June 30, 2014, we completed our acquisition of substantially all the assets of Zalk Steel & Supply Co. (“Zalk Steel”), a Minneapolis, Minnesota-based galvanizing company, for a purchase price of $10.5 million and the assumption of $0.3 million in liabilities. The Company recorded $3.3 million of goodwill, which has been allocated to the Galvanizing Segment, and $3.4 million of intangible assets associated with this acquisition. The intangible assets associated with the acquisition consist primarily of trade names, customer relationships and non-compete agreements. These intangible assets are being amortized on a straight-line basis over a period of 19 years for customer relationships, 19 years for trade names, and 5 years for non-compete agreements. Zalk Steel was acquired to expand AZZ's existing footprint in the upper Midwest region of the United States. The goodwill arising from this acquisition was allocated to the Galvanizing Segment and is deductible for income tax purposes.

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

On March 29, 2013, we completed our acquisition of all of the equity securities of Aquilex Specialty Repair and Overhaul LLC, a Delaware limited liability company (“Aquilex SRO”), pursuant to the terms of the Securities Purchase Agreement dated February 22, 2013 (the “Purchase Agreement”). Aquilex SRO provides the energy industry with specialty repair and overhaul solutions designed to improve mechanical integrity and extend component life. Aquilex SRO offers services to a diverse base of blue-chip customers in the nuclear, fossil power, refining, chemical

processing, pulp and waste-to-energy industries, serving clients that place a high value on reliability, quality and safety. Aquilex SRO’s offering is differentiated through advanced proprietary tooling and process technologies delivered by a uniquely skilled specialized workforce. The acquisition is part of our strategy to expand our offerings in the Energy Segment to enhance our presence in the power generation market. The Purchase Agreement provided for AZZ's acquisition of all equity securities of Aquilex

Table of Contents
AZZ Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SRO for cash consideration in the amount of $275.7 million, which was comprised of $271.8 million as cash paid at closing and $3.9 million subsequently paid in connection with a purchase price adjustment based on working capital pursuant to the Purchase Agreement.

Under the acquisition method of accounting, the total purchase price was allocated to Aquilex SRO's net identifiable assets based on their estimated fair values as of March 29, 2013, the date on which AZZ acquired control of Aquilex SRO through cash purchase. The excess of the purchase price over the net identifiable assets was recorded as goodwill. The following table summarizes the estimated fair value of the assets acquired and liabilities of Aquilex SRO assumed at the date of acquisition:

	($ in thousands)
Current Assets	$ 78,619
Property and Equipment	27,669
Intangible Assets	87,100
Goodwill	109,636
Other Assets	205
Total Assets Acquired	303,229
Current Liabilities	(27,527)
Net Assets Acquired	$ 275,702

The goodwill recorded in connection with the acquisition is primarily attributable to a larger geographic footprint and also synergies expected to arise. This goodwill has been allocated to the Energy Segment and will not be deductible for income tax purposes. All of the $87.1 million of intangible assets acquired are assigned to customer related intangibles and technology. The intangible assets are being amortized over 14 years for customer related intangibles, 19 years for trade names and 3-9 years for technology on a straight line basis. During fiscal 2014, we expensed $5.4 million in acquisition costs related to the acquisition of Aquilex SRO.
The following unaudited pro forma information assumes that the acquisition of Aquilex SRO took place on March 1, 2013 for the income statement for the year ended February 28, 2014.

	2014 (Unaudited) (In thousands, except for per share amounts)
Net sales:	$ 774,818
Net Income	$ 60,080
Earnings Per Common Share	
Basic Earnings Per Share	$ 2.35
Diluted Earnings Per Share	$ 2.34

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

46

Table of Contents

Schedule II
AZZ Inc.
Valuation and Qualifying Accounts and Reserves
(In thousands)

	Year Ended,		
	February 29, 2016	February 28, 2015	February 28, 2014
Allowance for Doubtful Accounts			
Balance at beginning of year	$1,472	$1,744	$1,000
Additions (reductions) charged or credited to income	(1,072)	458	(116)
Balances written off, net of recoveries	(176)	(700)	(294)
Other	48	—	1,184
Effect of exchange rate	(8)	(30)	(30)
Balance at end of year	$264	$1,472	$1,744

Table of Contents

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of February 29, 2016, the Company's management, with the participation of its principal executive officer and principal financial officer, have evaluated, as required by Rule 13a-15(e) under the Securities Exchange Act of 1934 ("the Exchange Act"), the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of February 29, 2016, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits 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 the Company's management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended February 29, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management’s Report on Internal Controls Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Management, with the participation of its principal executive officer and principal financial officer assessed the effectiveness, as of February 29, 2016, of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management concluded that the Company maintained effective internal control over financial reporting as of February 29, 2016. Management's assessment and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of the internal controls of US Galvanizing, LLC, whose acquisition was completed on June 5, 2015, or Alpha Galvanizing Inc., whose acquisition was completed on February 1, 2016. US Galvanizing, LLC constituted approximately 7.3% of the Company’s total assets as of February 29, 2016 and 3.6% and 2.9% of revenues and net income, respectively, for the year then ended. Alpha Galvanizing Inc. constituted approximately 1.2% of the Company’s total assets as of February 29, 2016 and less than one percent of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of US Galvanizing, LLC or Alpha Galvanizing Inc. because of the timing of the acquisition.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements or fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met.

The effectiveness of the Company's internal control over financial reporting as of February 29, 2016, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their attestation report included herein.

Item 9B. Other Information.

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item with regard to executive officers is included in Part I, Item 1 of this Annual Report on Form 10-K under the heading “Executive Officers of the Registrant.”

Information regarding directors of AZZ required by this Item is incorporated by reference to the section entitled “Election of Directors” set forth in the Proxy Statement for our 2016 Annual Meeting of Shareholders.

The information regarding compliance with Section 16(a) of the Exchange Act required by this Item is incorporated by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” set forth in the Proxy Statement for our 2016 Annual Meeting of Shareholders.

Information regarding our audit committee financial experts and code of ethics and business conduct required by this Item is incorporated by reference to the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership” set forth in the Proxy Statement for our 2016 Annual Meeting of Shareholders.

No director or nominee for director has any family relationship with any other director or nominee or with any executive officer of our company.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the section entitled “Executive Compensation” and the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership – Fees Paid to Directors” set forth in our Proxy Statement for our 2016 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to the section entitled “Executive Compensation” and the section entitled “Matters Relating to Corporate Governance, Board Structure, Director Compensation and Stock Ownership – Security Ownership of Management” set forth in the Proxy Statement for our 2016 Annual Meeting of Shareholders.

Equity Compensation Plan

The following table provides a summary of information as of February 29, 2016, relating to our equity compensation plans in which our Common Stock is authorized for issuance.

Equity Compensation Plan Information:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by shareholders[1]	312,748[2]	$ 34.23	1,389,563[3]
Total	312,748	$ 34.23	1,389,563

(1) Consists of the Amended and Restated 2005 Long-Term Incentive Plan and the 2014 Long-Term Incentive Plan. See Note 11, “Stock Compensation” to our “Notes to Consolidated Financial Statements” for further information.

(2) The average term of outstanding stock appreciation rights is 3.51 years.

(3) Consists of 1,389,563 shares remaining available for future issuance under the Amended and Restated 2005 Long-Term Incentive Plan.

Description of Other Plans for the Grant of Equity Compensation

Table of Contents

Long Term Incentive Plans

The description of the 2005 Long Term Incentive Plan and 2014 Long Term Incentive Plan provided in Note 11 to the financial statements included in this Annual Report on Form 10-K are incorporated by reference under this Item.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference to the sections entitled “Certain Relationships and Related Party Transactions” and “Director Independence” set forth in the Proxy Statement for our 2016 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

Information required by this Item is incorporated by reference to the sections entitled “Other Business – Independent Auditor Fees” and “Other Business – Pre-approval of Non-audit Fees” set forth in our Proxy Statement for our 2016 Annual Meeting of Shareholders.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules.

A. Financial Statements

1. The financial statements filed as a part of this Annual Report on Form 10-K are listed in the "Index to Consolidated Financial Statements" on page 27.

2. Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts and Reserves filed as a part of this Annual Report on Form 10-K is listed in the "Index to Consolidated Financial Statements" on page 53.

Schedules and compliance information other than those referred to above have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

B. 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 Annual Report on Form 10-K is set forth in the Index to Exhibits beginning on page 60, which immediately precedes such exhibits.

Table of Contents

SIGNATURES

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

AZZ Inc.
(Registrant)

April 21, 2016 By: /s/ Thomas E. Ferguson
Thomas E. Ferguson,
President and Chief Executive Officer

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

Table of Contents

April 21, 2016 /s/ Kevern R. Joyce
Kevern R. Joyce
Chairman of the Board of Directors

April 21, 2016 /s/ Thomas E. Ferguson
Thomas E. Ferguson
President, Chief Executive Officer and Director (Principal Executive Officer)

April 21, 2016 /s/ Paul W. Fehlman
Paul W. Fehlman,
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

April 21, 2016 /s/ Robert J. Steines
Robert J. Steines
Vice President and Chief Accounting Officer

April 21, 2016 /s/ Daniel R. Feehan
Daniel R. Feehan
Director

April 21, 2016 /s/ Peter A. Hegedus
Peter A. Hegedus
Director

April 21, 2016 /s/ Dr. H. Kirk Downey
Dr. H. Kirk Downey
Director

April 21, 2016 /s/ Daniel E. Berce
Daniel E. Berce
Director

April 21, 2016 /s/ Martin C. Bowen
Martin C. Bowen
Director

April 21, 2016 /s/ Paul Eisman
Paul Eisman
Director

April 21, 2016 /s/ Venita McCellon-Allen
Venita McCellon-Allen
Director

April 21, 2016 /s/ Steven R. Purvis
Steven R. Purvis
Director

April 21, 2016 /s/ Stephen E. Pirnat
Stephen E. Pirnat
Director

53

Table of Contents

Index to Exhibits as Required By Item 601 of Regulation S-K.

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)
4.1	Form of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2000)
10.1	Securities Purchase Agreement, dated February 22, 2013 by and among AZZ incorporated, Arbor-Crowley, Inc., Aquilex Specialty Repair and Overhaul LLC, Aquilex LLC, the Blocker Sellers named therein and the Blocker Corps named therein (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 28, 2013)
10.2	Note Purchase Agreement dated March 31, 2008, by and among AZZ incorporated and the purchasers listed therein (incorporated by reference to Exhibit 10(1) to the Registrant's Current Report on Form 8-K filed April 2, 2008)
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 Registrant's Current Report on Form 8-K filed January 21, 2011)
10.4	Credit Agreement, dated as of March 27, 2013, by and among AZZ incorporated, 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 Registrant's Current Report on Form 8-K filed April 2, 2013)
10.5*	AZZ incorporated Amended and Restated 2005 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form DEF 14A filed June 4, 2008)
10.6*	Form of AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Directors (incorporated by reference to Exhibit 10(53) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2004)
10.7*	Form of AZZ incorporated Fiscal Year 2005 Stock Appreciation Rights Plan for Key Employees (incorporated by reference to Exhibit 10(54) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2004)
10.8*	AZZ Inc. 2014 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Form DEF 14A filed May 29, 2014)
10.9*	First Amendment to AZZ Inc. 2014 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.10*	Amended Form of Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.11*	Amended Form of Stock Appreciation Rights Award Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.12*	Amended Form of Performance Award Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.13*	AZZ Inc. Senior Management Bonus Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF 14A filed May 28, 2015)
10.14*	First Amendment to Senior Management Bonus Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.15*	AZZ incorporated Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF14A filed June 4, 2008)
10.16*	Employment Agreement by and between AZZ incorporated and Thomas Ferguson, dated as of November 4, 2013 (incorporated by reference to the Exhibit 10(1) to the Registrant's Current Report on Form 8-K filed November 7, 2013)

10.17*	Change in Control Agreement by and between AZZ incorporated and Thomas Ferguson, dated as of November 4, 2013 (incorporated by reference to Exhibit 10(2) to the Registrant's Current Report on Form 8-K filed November 7, 2013)
10.18*	Employment Agreement by and between AZZ incorporated and Paul Fehlman, dated as of February 24, 2014 (incorporated by reference to Exhibit 10(1) to the Registrant's Current Report on Form 8-K filed February 27, 2014)

Table of Contents

10.19*	Change in Control Agreement by and between AZZ incorporated and Paul Fehlman, dated as of February 24, 2014 (incorporated by reference to Exhibit 10(2) to the Registrant's Current Report on Form 8-K filed February 27, 2014)
10.20*	Form of Change in Control Agreement by and between AZZ incorporated and certain officers thereof (incorporated by reference to Exhibit 10(18) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2002)
10.21*	AZZ Inc. Compensation Recovery Policy (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on January 21, 2016)
10.22*	Form of Change in Control Agreement by and between AZZ incorporated and certain officers thereof (incorporated by reference to Exhibit 10(18) to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 2002)
12.1	Computation of Ratio of Earnings to Fixed Charges (Filed herewith)
14.1	Code of Conduct. AZZ Inc. Code of Conduct may be accessed via the Company's Website at www.azz.com.
21.1	Subsidiaries of the Registrant (Filed herewith)
23.1	Consent of BDO USA, LLP (Filed herewith)
31.1	Certification by Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Exley Act of 2002 (Filed herewith)
31.2	Certification by Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Exley Act of 2002 (Filed herewith)
32.1	Certification by Chief Executive Officer 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	Certification by Chief Financial Officer 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 Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract, compensatory plan or arrangement