

AZZ INC  
Form 10-K/A  
April 19, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K/A  
(Amendment No. 1)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended February 28, 2017  
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: 1-12777

AZZ Inc.  
(Exact name of registrant as specified in its charter)  
TEXAS 75-0948250  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Museum Place, Suite 500  
3100 West 7th Street 76107  
Fort Worth, Texas  
(Address of principal executive offices) (Zip Code)  
(817) 810-0095  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class Name of each exchange on which registered  
Common Stock, \$1.00 par value per share New York Stock Exchange  
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).

Yes                      No  
ý                              ..

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 this Form 10-K or any amendment to this Form 10-K. "

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

| Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller Reporting company | Emerging growth company |
|-------------------------|-------------------|-----------------------|---------------------------|-------------------------|
| x                       | o                 | o                     | o                         | ..                      |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes                      No  
..                              ý

As of August 31, 2016 (the last business day of its most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,704,959,032 based on the closing sale price of \$66.43 per share as reported on the New York Stock Exchange. For purposes of determining the above stated amount, only the directors, executive officers and 10% or greater shareholders of the registrant have been deemed affiliates; however, this does not represent a conclusion by the registrant that any or all such persons are affiliates of the registrant.

As of April 10, 2017, there were 26,020,582 shares of the registrant's common stock (\$1.00 par value) outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the definitive Proxy Statement for the Annual Meeting of Shareholders held July 11, 2017 (Proxy Statement) - Part III

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Explanatory Note

This Amendment No. 1 on Form 10-K/A (this "Form 10-K/A") amends and restates certain items noted below in the Annual Report on Form 10-K of AZZ Inc. (the "Company") for the fiscal year ended February 28, 2017, as originally filed with the Securities and Exchange Commission on April 20, 2017 (the "Original Filing"). This Form 10-K/A amends the Original Filing to reflect the correction of an error in the previously reported fiscal year 2015 through fiscal year 2017 financial statements related to the Company's revenue recognition practices within its Energy Segment. See Note 2 to the Consolidated Financial Statements included in Item 8 for additional information and a reconciliation of the previously reported amounts to the restated amounts.

For the convenience of the reader, this Form 10-K/A sets forth the Original Filing, as amended, in its entirety; however, this Form 10-K/A amends and restates only the following financial statements and disclosures that were impacted from the correction of the error:

Part II, Item 6 - Selected Financial Data

Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8 - Financial Statements and Supplementary Data

Part II, Item 9A - Controls and Procedures

Part IV, Item 15 - Exhibits and Financial Statement Schedules

Signatures

This Form 10-K/A also amends Part I, Item 1 - Business - Executive Officers of the Company to reflect the current executive officers of the Company and Part I, Item 3 - Legal Proceedings to reflect updated legal matters. In addition, the Company's Chief Executive Officer and Chief Financial Officer have provided new certifications dated as of the date of this filing in connection with this Form 10-K/A (Exhibits 31.1, 31.2, 32.1 and 32.2), and the Company has provided its revised audited consolidated financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibit 101.

Except as described above, no other changes have been made to the Original Filing. This Form 10-K/A speaks as of the date of the Original Filing and does not reflect events that may have occurred after the date of the Original Filing, or modify or update any disclosures that may have been affected by subsequent events.

The Company is also concurrently filing amended Quarterly Reports for the quarterly periods ended May 31, 2017 and

August 31, 2017 to restate the previously issued interim financial statements due to the accounting error described above.

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### Forward Looking Statements

Certain statements herein about our expectations of future events or results constitute forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Such forward-looking statements are based on currently available competitive, financial and economic data and management’s views and assumptions regarding future events. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. In addition, certain factors could affect the outcome of the matters described herein. This Annual Report on Form 10-K/A may contain forward-looking statements that involve risks and uncertainties including, but not limited to, changes in customer demand and response to products and services offered by AZZ, including demand by the power generation markets, electrical transmission and distribution markets, the industrial markets, and the hot dip galvanizing markets; prices and raw material cost, including zinc and natural gas which are used in the hot dip galvanizing process; changes in the political stability and economic conditions of the various markets that AZZ serves, foreign and domestic; customer requested delays of shipments; additional acquisition opportunities; currency exchange rates; adequacy of financing; availability of experienced management and employees to implement AZZ’s growth strategy; a downturn in market conditions in any industry relating to the products we inventory or sell or the services that we provide; the continuing economic volatility in the U.S. and other markets in which we operate; acts of war or terrorism inside the United States or abroad; and other changes in economic and financial conditions. You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. These statements are based on information as of the date hereof and AZZ assumes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

### PART I

#### Item 1. Business

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

#### Energy Segment

AZZ’s Energy Segment is a leading provider of specialized products and services designed to support industrial, nuclear and electrical applications. Our product offerings include custom switchgear, electrical enclosures, medium and high voltage bus ducts, explosion proof and hazardous duty lighting, nuclear safety-related equipment and tubular products. In addition to our product offerings, AZZ’s Energy Segment focuses on extension of life cycle for the power generation, refining and industrial infrastructure, through automated weld overlay solutions for corrosion and erosion mitigation. The markets for our Energy Segment are highly competitive and consist of large multi-national companies, along with numerous small independent companies. Competition is based primarily on product quality, range of product line, price and service. While some of our competitors are much larger than us, our Energy Segment offers some of the most technologically advanced solutions and engineering resources developed from a legacy of proven, reliable product options, allowing AZZ Energy to be ideally positioned to meet the most challenging application-specific demands.

Copper, aluminum, steel and nickel based alloys are the primary raw materials used by this segment. We do not foresee any availability issues for these materials. We do not contractually commit to minimum volumes and increases

in price for these items are normally managed through escalation clauses to the customer's contracts, which the customers may not accept. In addition, we seek to get firm pricing contracts from our vendors on these materials at the time we receive orders from our customers in order to minimize risk.

We sell Energy Segment products through manufacturers' representatives, distributors, agents and our internal sales force. We are not dependent on any single customer for this segment, and the loss of any single customer would not have a material adverse effect on our consolidated revenues or net income.

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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.

For additional information regarding the Energy Segment's backlog and operating results, see Results of Operations within Item 7. For additional financial information by segment, see Note 14 of the Notes to Consolidated Financial Statements.

### Galvanizing Segment

The Galvanizing Segment provides hot dip galvanizing to the steel fabrication industry through facilities located throughout the United States and Canada. Hot dip galvanizing is a metallurgical process in which molten zinc is applied to steel. The zinc alloying renders corrosion protection to fabricated steel for extended periods of up to 50 years. As of February 28, 2017, we operated forty-one galvanizing plants, which are located in Alabama, Arkansas, Arizona, Colorado, Indiana, Illinois, Louisiana, Kentucky, Minnesota, Mississippi, Missouri, Nebraska, Nevada, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia in the United States and Ontario, Quebec and Nova Scotia, Canada.

Galvanizing is a highly competitive business, and we compete with other galvanizing companies, captive galvanizing facilities operated by manufacturers, and alternate forms of corrosion protection such as material selection (stainless steel or aluminum) or barrier protections such as powder coating, paint, and weathering steel. Our galvanizing markets are generally limited to areas within relatively close proximity to our galvanizing plants due to freight cost.

Zinc, the principal raw material used in the galvanizing process, is currently readily available, but is subject to volatile pricing. We manage our exposure to commodity pricing of zinc by utilizing agreements with zinc suppliers that include fixed costs contracts to guard against escalating commodity prices. We also secure firm pricing for natural gas supplies with individual utilities when possible. We may or may not continue to use these or other strategies to manage risk in the future.

We typically serve fabricators or manufacturers that provide services to the electrical and telecommunications, bridge and highway, petrochemical and general industrial markets, and numerous original equipment manufacturers. We do not depend on any single customer for a significant amount of our sales, and the loss of any single customer would not have a material adverse effect on our consolidated revenues or net income.

On February 1, 2016, we completed the acquisition of substantially all the assets of Alpha Galvanizing Inc. (“Alpha Galvanizing”), an Atkinson, Nebraska-based business unit of Olson Industries, Inc. 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.

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. (“US Galvanizing”). The acquisition of the US Galvanizing assets included six galvanizing facilities located in Hurst, Texas; Kennedale, Texas; Big Spring, Texas; San Antonio, Texas; Morgan City, Louisiana; and Kosciusko, Mississippi. Additionally, the transaction included Texas Welded Wire, a secondary business integrated within US Galvanizing's Hurst, Texas facility. US Galvanizing was acquired to expand AZZ Galvanizing's Southern operations.

On June 30, 2014, we completed the acquisition of substantially all the assets of Zalk Steel & Supply Co. (“Zalk Steel”), a Minneapolis, Minnesota-based galvanizing company. Zalk Steel was acquired to expand AZZ Galvanizing's existing geographic footprint in the upper Midwest region of the United States.

For additional information on the Galvanizing Segment's operating results, see Results of Operations within Item 7. For additional financial information by segment, see Note 14 to the Consolidated Financial Statements.

### Employees

As of February 28, 2017, the Company employed approximately 4,183 persons consisting of approximately 3,830 in the United States, approximately 204 in Canada, 135 in Europe, and 14 in other countries.



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## Executive Officers of the Registrant

Our executive officers were as follows as of April 19, 2018:

| Name               | Age | Business Experience of Executive Officers for Past Five Years<br>Position or Office with Registrant or Prior Employer | Held Since |
|--------------------|-----|---|------------|
| Thomas E. Ferguson | 61  | President and Chief Executive Officer   | 2013       |
|                    |     | Chief Executive Officer, FlexSteel Pipeline Technologies, Inc.  | 2013-2013  |
|                    |     | President, Flow Solutions Group, Flowserve Corporation  | 2009-2012  |
|                    |     | President, Pump Division, Flowserve Corporation   | 2003-2009  |
| Paul W. Fehlman    | 54  | Senior Vice President of Finance, Chief Financial Officer   | 2014       |
|                    |     | Vice President, Finance, Engineered Products Division, Flowserve Corp.  | 2011-2013  |
|                    |     | Vice President, Investor Relations and FP&A, Flowserve Corporation  | 2009-2011  |
|                    |     | Vice President, Treasurer, Flowserve Corporation  | 2004-2009  |
| Tara D. Mackey     | 48  | Chief Legal Officer and Secretary   | 2014       |
|                    |     | Chief Legal Counsel and Corporate Secretary, First Parts, Inc.  | 2013-2014  |
|                    |     | General Counsel and Corporate Secretary, Silverleaf Resorts Inc.  | 2011-2013  |
| Matt Emery         | 50  | VP, Assistant General Counsel and Corporate Secretary, SuperMedia LLC   | 2008-2011  |
|                    |     | Vice President, Chief Information and Human Resource Officer  | 2013       |
|                    |     | Senior Director of Information Technologies, Hewlett-Packard  | 2004-2013  |
| James Drew Byelick | 60  | Vice President and Chief Accounting Officer   | 2017       |
|                    |     | Director of Finance - Energy  | 2016-2017  |
|                    |     | Controller - Nuclear Logistics LLC  | 2015-2016  |
| Chris Bacius       | 57  | Independent Consultant  | 2000-2015  |
|                    |     | Vice President, Corporate Development   | 2014       |
|                    |     | Vice President Mergers & Acquisition, Flowserve Corporation   | 2012-2014  |
|                    |     | Vice President Business Development, Flowserve Corporation  | 2009-2012  |
| Ken Lavelle        | 61  | President and General Manager - Electrical Platform   | 2017       |
|                    |     | President, Lavelle Management Consultant  | 2016-2017  |
|                    |     | President, Global Seals & Systems Operation - Flowserve Corporation   | 2012-2016  |
|                    |     | Vice President, General Manager, FSG North America - Flowserve Corporation  | 2009-2012  |

Each executive officer was elected by the Board of Directors to hold office until the next Annual Meeting or until their successor is elected. No executive officer has any family relationships with any other executive officer of the Company.

## Available Information

AZZ files or furnishes annual, quarterly and current reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The public may read and copy any materials that AZZ files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including AZZ, that file electronically with the SEC. The public can obtain any documents that AZZ files with the SEC at <http://www.sec.gov>.

In addition, we make available, free of charge, on our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. You may review these documents, under the heading "Investor Relations," subheading

“SEC Filings,” on our website at  
<http://www.azz.com>.

Corporate Governance

Our Company’s Board of Directors (the “Board”), with the assistance of its Nominating and Corporate Governance Committee, has adopted Corporate Governance Guidelines that set forth the Board’s policies regarding corporate governance.

In connection with the Board’s responsibility to oversee our legal compliance and conduct, the Board has adopted a Code of Conduct, which applies to the Company’s officers, directors and employees.

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The Board has adopted charters for each of its Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. You may review the Corporate Governance Guidelines, our Code of Conduct and our Committee charters under the Heading “Investor Relations,” subheading “Corporate Governance,” on our website at: <http://www.azz.com>

You may also obtain a copy of these documents by mailing a request to:

AZZ Inc.  
Investor Relations  
One Museum Place, Suite 500  
3100 West 7th Street  
Fort Worth, TX 76107

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Item 1A. Risk Factors

Our business is subject to a variety of risks, including but not limited to the risks described below, which we believe are the most significant risks and uncertainties facing our business. Additional risks and uncertainties not known to us or not described below may also impair our business operations in the future. If any of the following risks actually occur, our business, financial condition and results of operations and future growth could be negatively impacted.

Our business segments operate in highly competitive markets.

Many of our competitors, primarily in our Energy Segment, are significantly larger and have substantially more resources than AZZ. Competition is based on a number of factors, including price. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products and services at lower prices than we are able to provide. We cannot be certain that our competitors will not develop the expertise, experience and resources to provide services that are superior in both price and quality in the future. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industries, maintain our customer base at current levels or increase our customer base.

Climate change could impact our business.

Climate changes could result in an adverse impact on AZZ's operations, particularly in hurricane prone or low lying areas near the ocean. At this time, the Company is not able to speculate as to the potential timing or impact from potential global warming and other natural disasters, however the Company believes that it currently has adequate insurance coverage and disaster recovery plans related to any potential natural disasters that might occur at any of the Company's sites.

Changes in greenhouse gas regulations could impact our operating results.

International agreements and national or regional legislation and regulatory measures to limit greenhouse emissions are currently in various stages of discussion or implementation. These and other greenhouse gas emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary depending on the laws enacted in each jurisdiction, our activities in the particular jurisdiction, and market conditions.

The effect of regulation on our financial performance will depend on a number of factors including, not limited to, the sectors covered, the greenhouse gas emissions reductions required by law, the extent to which we would be entitled to receive emission allowance allocations or would need to purchase compliance instruments on the open market or through auctions, the price and availability of emission allowances and credits and the impact of legislation or other regulation on our ability to recover the costs incurred through the pricing of our products and services.

Our business segments are sensitive to economic downturns.

If the general level of economic activity deteriorates from current levels, our customers may delay or cancel new projects. If there is a reduction in demand for our products or services, as a result of a downturn in the general economy, there could be a material adverse effect on price levels and the quantity of goods and services purchased, therefore adversely impacting revenues and results from operations. A number of factors, including financing conditions and potential bankruptcies in the industries we serve, could adversely affect our customers and their ability or willingness to fund capital expenditures in the future and pay for past services. Certain economic conditions may also impact the financial condition of one or more of our key suppliers, which could affect our ability to secure raw materials and components to meet our customers' demand for our products in the future. Other various factors drive demand for our products and services, including the price of oil, economic forecasts and financial markets.

Uncertainty in the global economy and financial markets could continue to impact our customers and could in turn severely impact the demand for spending projects that would result in a reduction in orders for our products and services. All of these factors combined together could materially impact our business, financial condition, cash flows and results of operations and potentially impact the trading price of our common stock.

International and political events may adversely affect our Energy and Galvanizing Segments.

A portion of the revenues from our Energy and Galvanizing Segments are from international markets. The occurrence of any of the risks described below could have an adverse effect on our consolidated results of operations, cash flows

and financial condition:

political and economic instability, such as is occurring in Northern Africa, Europe and the Middle East; social unrest, acts of terrorism, force majeure, war or other armed conflict; inflation; currency fluctuation, devaluations and conversion restrictions; governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds; and trade restrictions and economic embargoes by the United States or other countries.

Fluctuations in the price and supply of raw materials and natural gas for our business segments may adversely affect our operations.

We purchase a wide variety of raw materials for our Energy Segment to manufacture our products, including copper, aluminum, steel and nickel. Unanticipated increases in raw material requirements or price increases could increase production costs and adversely affect profitability. In our Galvanizing Segment, zinc and natural gas represent a large portion of our cost of sales. The prices of zinc and natural gas are subject to volatility. The following factors, which are beyond our control, affect the price of raw materials and natural gas for our business segments: supply and demand; freight costs and transportation availability; trade duties and taxes; and labor disputes. We seek to maintain operating margins by attempting to increase the price of our products and services in response to increased costs, but may not be successful in passing these price increases through to our customers.

Our volume of fixed-price contracts for our Energy Segment could adversely affect our business.

We currently generate, and expect to continue to generate, a significant portion of our revenues under fixed price contracts. We must estimate the costs of completing a particular project to bid for fixed-price contracts. The actual cost of labor and materials, however, may vary from the costs we originally estimated. Depending on the size of a particular project, variations from estimated cost could have a significant impact on our operating results for any fiscal year.

Our operations could be adversely impacted by the continuing effects from government regulations.

Various regulations have been implemented related to new safety and certification requirements applicable to oil and gas drilling and production activities. While certain new drilling plans and drilling permits have been approved, we cannot predict whether operators will be able to satisfy these requirements. Further, we cannot predict what the continuing effects of government regulations on offshore deepwater drilling projects may have on offshore oil and gas exploration and development activity, or what actions may be taken by our customers or other industry participants in response to these regulations. Changes in laws or regulations regarding offshore oil and gas exploration and development activities and decisions by customers and other industry participants could reduce demand for our services, which would have a negative impact on our operations. Similarly, we cannot accurately predict future regulations by the government in any country in which we operate and how those regulations may affect our ability to perform projects in those regions.

Federal, state and local governments have a major impact on the framework and economics of the US nuclear power industry. Changes in laws or regulations regarding the operations of current nuclear facilities could have an impact on the demand for our products and services, which would have a negative impact on our operations. These same risks are also associated with foreign nuclear power industries.

New regulations related to conflict minerals could adversely impact our business.

On August 22, 2012, the SEC adopted a rule pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act which established annual disclosure and reporting requirements for publicly-traded companies that use tin, tantalum, tungsten or gold (collectively, "conflict minerals") mined from the Democratic Republic of Congo and adjoining countries in their products. There are costs associated with complying with these disclosure requirements, including costs for due diligence to determine the source of any conflict minerals used in our products and other potential changes to products, processes, or sources of supply. Despite our due diligence efforts, we may be unable to verify the origin of all conflict minerals used in our component products. As a result, we may face reputational and other challenges with customers that require that all of the components incorporated in our products be certified as conflict-free.

Our acquisition strategy involves a number of risks.

We intend to pursue continued growth through opportunities to acquire companies or assets that will enable us to expand our product and service offerings and to increase our geographic footprint. We routinely review potential acquisitions. However, we may be unable to implement this growth strategy if we cannot reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, our acquisition strategy involves certain risks, including:

- difficulties in the post acquisition integration of operations and systems;
- the termination of relationships with key personnel and customers of the acquired company;
- a failure to add additional employees to manage the increased volume of business;
- additional post acquisition challenges and complexities in areas such as tax planning, treasury management, financial reporting and legal compliance;
- risks and liabilities from our acquisitions, some of which may not be discovered during the preacquisition due diligence process;
- a disruption of our ongoing business or an inability of our ongoing business to receive sufficient management attention; and
- a failure to realize the cost savings or other financial benefits we anticipated prior to acquisition.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on current attractive market terms.

Our use of percentage-of-completion accounting in the Energy Segment could result in a reduction or elimination of previously reported profits.

As discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” and in the notes to our consolidated financial statements, a portion of our revenues is recognized on the percentage-of-completion method of accounting. The percentage-of-completion accounting practice causes us to recognize contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Actual collection of contract amounts or change orders could differ from original estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant. We may not be able to fully realize the revenue value reported in our backlog for our Energy Segment.

We have a backlog of work in our Energy Segment. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Backlog develops as a result of new business secured, which represents the revenue value of new project commitments received by us during a given period. Backlog consists of projects which have either (1) not been started or (2) are in progress and are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. From time to time, projects that were recorded as new business are cancelled. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, we may also incur additional costs resulting from underutilized assets if projects are cancelled.

Our operating results may vary significantly from quarter to quarter.

Our quarterly results may be materially and adversely affected by:

- the timing and volume of work under new agreements;
- general economic conditions;
- the budgetary spending patterns of customers;
- variations in the margins of projects performed during any particular quarter;
- losses experienced in our operations not otherwise covered by insurance;
- a change in the demand or production of our products and our services caused by severe weather conditions;
- a change in the mix of our customers, contracts and business;
- a change in customer delivery schedule;
-

increases in design and manufacturing costs; and

abilities of customers to pay their invoices owed to us.

Accordingly, our operating results in any particular quarter may not be indicative of the results expected for any other quarter or for the entire year.

We may be unsuccessful at generating internal growth.

Our ability to generate internal growth will be affected by, among other factors, our ability to:

- attract new customers, internationally and domestically;
- integrate regulatory changes;
- increase the number or size of projects performed for existing customers;
- hire and retain employees; and
- increase volume utilizing our existing facilities.

Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are unsuccessful, we may not be able to achieve internal growth, expand our operations or grow our business.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers and senior management. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

Our business requires skilled labor, and we may be unable to attract and retain qualified employees.

Our ability to maintain our productivity and profitability could be limited by an inability to employ, train and retain skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. We cannot be certain that we will be able to maintain an adequately skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expense will not increase as a result of shortage in the supply of skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues.

Actual and potential claims, lawsuits, and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.

In the future, the Company could be named as a defendant in legal proceedings claiming damages from us in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or with respect to the equipment we manufacture. We could potentially be a plaintiff in legal proceedings against customers, in which we seek to recover payments of contractual amounts due to us, and claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure. If in the future our assumptions and estimates related to such exposures prove to be inadequate or incorrect, our consolidated results of operations, cash flows and financial condition could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation and possibly divert management resources away from operating our business. Technological innovations by competitors may make existing products and production methods obsolete.

All of the products manufactured and sold by the Company depend upon the best available technology for success in the marketplace. The competitive environment is highly sensitive to technological innovation in both segments of our business. It is possible for our competitors, both foreign and domestic, to develop new products or production methods, which will make current products or methods obsolete or at least hasten their obsolescence.

Catastrophic events could disrupt our business.

The occurrence of catastrophic events ranging from natural disasters such as earthquakes, tsunamis or hurricanes to epidemics such as health epidemics to acts of war and terrorism could disrupt or delay our ability to complete projects and could potentially expose the Company to third-party liability claims. Such events may or may not be fully covered by our various insurance policies or may be subject to deductibles. In addition, such events could impact our

customers and suppliers, resulting in temporary or long-term delays and/or cancellations of orders or raw materials used in normal business operations. These situations are outside the Company's control and could have a significant adverse impact on the results of operations.

Adoption of new or revised employment and labor laws and regulations could make it easier for our employees to obtain union representation and our business could be adversely impacted.

Other than an nominal number of employees at four of our wholly-owned subsidiaries, none of our employees are currently represented by unions. However, our U.S. based employees have the right at any time under the National Labor Relations Act to form or affiliate with a union. If some or our entire workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could increase our costs and adversely impact our profitability. Any changes in regulations, the imposition of new regulations, or the enactment of new legislation could have an adverse impact on our business; to the extent it becomes easier for workers to obtain union representation.

AZZ's flexibility to operate its business could be impacted by provisions in its debt obligations.

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.



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## Item 2. Properties

The following table sets forth information about the Company's principal facilities, owned or leased, on February 28, 2017:

| Location                    | Land/Acres | Buildings/Sq. Footage | Segment/Occupant    |
|-----------------------------|------------|-----------------------|---------------------|
| Crowley, Texas              | 26.3       | 168,797               | 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) 120,410      | 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      |
| Millington, MD              | 11.7       | (Leased) 96,958       | 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 |
| 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 |



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|                           |      |                 |                     |
|---------------------------|------|-----------------|---------------------|
| 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   |

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Item 3. Legal Proceedings

On January 11, 2018, Logan Mullins, acting on behalf of himself and a putative class of persons who purchased or otherwise acquired the Company's securities between April 22, 2015 and January 8, 2018, filed a class action complaint in the U.S. District Court for the Northern District of Texas against the Company and two of its executive officers, Thomas E. Ferguson and Paul W. Fehlman. Logan Mullins v. AZZ, Inc. et al., Case No. 4:18-cv-00025-Y. The complaint alleges, among other things, that the Company's SEC filings contained statements that were rendered materially false and misleading by the Company's alleged failure to properly recognize revenue related to certain contracts in its Energy Segment in purported violation of (1) Section 10(b) of the Exchange Act and Rule 10b-5 and (2) Section 20(a) of the Exchange Act. The plaintiffs seek an award of compensatory and punitive damages, interests, attorneys' fees and costs. The Company denies the allegations and believes it has strong defenses to vigorously contest them. The Company cannot predict the outcome of this action nor when it will be resolved. If the plaintiffs were to prevail in this matter, the Company could be liable for damages, which could potentially be material and could adversely affect its financial condition or results of operations.

In addition, 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 other 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.

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## 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 28, 2017 and February 29, 2016.

|                | High    | Low     | Dividends<br>Declared |
|----------------|---------|---------|-----------------------|
| Fiscal 2017    |         |         |                       |
| First Quarter  | \$59.52 | \$50.89 | \$ 0.15               |
| Second Quarter | \$67.98 | \$54.98 | \$ 0.15               |
| Third Quarter  | \$67.43 | \$51.20 | \$ 0.17               |
| Fourth Quarter | \$67.70 | \$57.15 | \$ 0.17               |
| 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               |

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 \$16.6 million, \$15.5 million, and \$14.9 million during fiscal 2017, 2016, and 2015, respectively. Dividend payments may be restricted to total payments of \$20.0 million per fiscal year based on covenants with the Company's lenders in the event that the Company's leverage ratio (defined as net debt to EBITDA) exceeds 3.0 to 1.0. Currently there are no restrictions on dividend payments. 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. During fiscal 2017, the Company purchased 100,000 shares at an average price of \$52.82 per share under the Company's share repurchase program. As of February 28, 2017, these shares were formally retired. Share repurchases may be restricted to total repurchases of \$50.0 million per fiscal year based on covenants with the Company's lenders in the event that the Company's leverage ratio exceeds 3.0 to 1.0. Currently there are no restrictions on share repurchases.

The approximate number of holders of record of our Common Stock at February 28, 2017 was 899. See Item 12 of this Report for information regarding securities authorized for issuance under equity compensation plans.

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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, 2012, 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, 2012

For Fiscal Year Ended on the Last Day of February

**Legend**

| Symbol | CRSP Total Returns Index for:   | 2/12   | 2/13   | 2/14   | 2/15   | 2/16   | 2/17   |
|--------|---|--------|--------|--------|--------|--------|--------|
|        | AZZ Inc.  | 100.00 | 180.89 | 182.27 | 189.05 | 212.74 | 249.82 |
|        | CRSP Index for NYSE Stock Market (US Companies)   | 100.00 | 115.37 | 141.85 | 159.21 | 143.61 | 180.86 |
|        | CRSP Index for NYSE Stocks (SIC 5000-5099 US Companies) Wholesale Trade - Durable Goods | 100.00 | 112.25 | 142.27 | 148.00 | 134.49 | 170.92 |

**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 02/29/2012.

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

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## Item 6. Selected Financial Data.

|   | Fiscal Year                              |                               |                               |                 |                 |
|---|--|-------------------------------|-------------------------------|-----------------|-----------------|
|   | 2017 (a)<br>(f)<br>(Restated)            | 2016 (b)<br>(f)<br>(Restated) | 2015 (c)<br>(f)<br>(Restated) | 2014 (d)<br>(g) | 2013 (e)<br>(g) |
|   | (In thousands, except per share amounts) |                               |                               |                 |                 |
| Summary of operations:                        |  |                               |                               |                 |                 |
| Net sales                                     | \$863,538                                | \$889,400                     | \$819,692                     | \$751,723       | \$570,594       |
| Net income                                    | 61,264                                   | 75,544                        | 65,616                        | 59,597          | 60,456          |
| Earnings per share:                           |  |                               |                               |                 |                 |
| Basic earnings per common share               | 2.36                                     | 2.93                          | 2.56                          | 2.34            | 2.39            |
| Diluted earnings per common share             | 2.35                                     | 2.91                          | 2.55                          | 2.32            | 2.37            |
| Total assets                                  | 978,354                                  | 988,201                       | 929,727                       | 953,253         | 694,205         |
| Total debt                                    | 272,290                                  | 326,982                       | 337,848                       | 405,616         | 210,714         |
| Total liabilities                             | 445,218                                  | 503,831                       | 505,275                       | 577,340         | 360,271         |
| Shareholders' equity                          | 533,136                                  | 484,370                       | 424,452                       | 375,913         | 333,934         |
| Working capital                               | 160,282                                  | 165,976                       | 156,532                       | 152,165         | 143,533         |
| Cash provided by operating activities         | 111,176                                  | 143,589                       | 118,157                       | 107,275         | 92,738          |
| Capital expenditures                          | 41,434                                   | 39,861                        | 29,377                        | 43,472          | 24,923          |
| Depreciation & amortization                   | 50,357                                   | 47,417                        | 46,089                        | 43,305          | 29,363          |
| Cash dividend per common share                | 0.64                                     | 0.60                          | 0.58                          | 0.56            | 0.53            |
| Weighted average shares outstanding - basic   | 25,965                                   | 25,800                        | 25,676                        | 25,514          | 25,320          |
| Weighted average shares outstanding - diluted | 26,097                                   | 25,937                        | 25,778                        | 25,693          | 25,561          |

(a) Includes the acquisition of Power Electronics, Inc. on March 1, 2016.

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

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

(d) Includes the acquisition of Aquilex SRO on March 29, 2013.

(e) 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.

(f) Restated, as discussed in Note 2 to the Consolidated Financial Statements included in Item 8.

(g) Fiscal year 2014 and 2013 do not reflect the restatement noted in (f) above, and therefore, the results and balances for these periods may lack comparability to the subsequently restated periods.

## 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/A. 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/A.

**Restatement of Previously Issued Financial Statements**

As previously disclosed, we determined that for certain contracts within our Energy Segment for which revenue was historically recognized upon contract completion and transfer of title, we instead should have applied the percentage-of-completion method in accordance with the FASB's Accounting Standards Codification No. 605-35, Construction-Type and Production-Type Contracts. In general, the percentage-of-completion method results in a revenue recognition pattern over time as a project progresses as opposed to deferring revenues until contract

completion.

We concluded that the impact of applying the percentage-of-completion method to our revenue contracts was materially different from our previously reported results under our historical practice. As a result, we are restating our consolidated financial statements for the periods impacted. See Note 2 to the Consolidated Financial Statements included in Item 8 for additional information and a reconciliation of the previously reported amounts to the restated amounts.

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## 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 14 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 28, 2017 is referred to as “fiscal 2017” or “fiscal year 2017.”

For the fiscal year ended February 28, 2017, we recorded net sales of \$863.5 million compared to the prior year’s net sales of \$889.4 million. Of the total net sales for fiscal 2017, approximately 56.5% of our net sales were generated from the Energy Segment and approximately 43.5% were generated from the Galvanizing Segment. Net income for fiscal 2017 was \$61.3 million compared to \$75.5 million for fiscal 2016. Net income as a percentage of net sales was 7.1% for fiscal 2017 as compared to 8.5% for fiscal 2016. Earnings per share fell by 19.2% to \$2.35 per share for fiscal 2017 compared to \$2.91 per share for fiscal 2016, on a diluted basis.

## Results of Operations

Year ended February 28, 2017 compared with year ended February 29, 2016

## Backlog

We ended fiscal 2017 with a backlog of \$317.9 million, a small increase compared to fiscal 2016. 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 2016. The book-to-ship ratio was 0.99 to 1 for fiscal 2017 and 1.02 to 1 for fiscal 2016.

The following table reflects bookings and shipments for fiscal 2017 and 2016.

## Backlog Table

(In thousands)

(Restated)

|                     | Period Ended |           | Period Ended |           |
|---------------------|--------------|-----------|--------------|-----------|
| Backlog             | 2/29/2016    | \$310,623 | 2/28/2015    | \$294,970 |
| Bookings            |              | 858,934   |              | 905,053   |
| Acquired Backlog    |              | 11,903    |              | —         |
| Shipments           |              | 863,538   |              | 889,400   |
| Backlog as reported | 2/28/2017    | \$317,922 | 2/29/2016    | \$310,623 |
| Book-to-Ship Ratio  |              | 0.99      |              | 1.02      |

## Net Sales

Our total net sales for fiscal 2017 decreased by \$25.9 million, or 2.9%, as compared to fiscal 2016.

The following table reflects the breakdown of revenue by segment:

|  | 2017           | 2016       |
|--|----------------|------------|
|  | (Restated)     | (Restated) |
|  | (In thousands) |            |

## Net sales:

|                 |           |           |
|-----------------|-----------|-----------|
| Energy          | \$488,002 | \$487,038 |
| Galvanizing     | 375,536   | 402,362   |
| Total Net Sales | \$863,538 | \$889,400 |

Our Energy Segment recorded net sales for fiscal 2017 of \$488.0 million as compared to fiscal 2016 net sales of \$487.0 million. The increase of 0.2% represented relatively flat growth from the prior year.



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Our Galvanizing Segment, which consisted of forty-one hot dip galvanizing facilities as of February 28, 2017, generated net sales of \$375.5 million, a 6.7% decrease from the prior year's net sales of \$402.4 million. The decline was a result of a volume decrease in steel processed caused by softness in the solar, petrochemical, and the oil and gas markets which offset higher pricing during the year.

Operating Income

Operating income for the Energy Segment decreased \$3.9 million, or 6.9%, for fiscal 2017, to \$52.6 million as compared to \$56.5 million for fiscal 2016. Operating margins for this segment were 10.8% for fiscal 2017 as compared to 11.6% for fiscal 2016. This decrease was attributable to the reduction in refinery turnarounds, which typically carry a higher margin, coupled with generally lower margin projects in the balance of the segment. Operating income for the Galvanizing Segment decreased \$15.7 million, or 16.6%, for fiscal 2017 to \$79.0 million as compared to \$94.8 million for the prior year. Operating margins were 21.0% for fiscal 2017 as compared to 23.6% for fiscal 2016. This decrease is attributable to lower volumes in fiscal 2017 and the \$7.3 million of realignment charge related to the shutdown of two galvanizing plants, the repurposing of a third plant, and the disposal of obsolete assets taken in the second quarter of fiscal 2017.

Corporate expenses were \$32.7 million for fiscal 2017 and \$30.9 million for fiscal 2016. This increase is attributable to higher spend on professional services, higher employee costs, and depreciation of corporate assets in fiscal 2017.

Interest

Interest expense for fiscal 2017 decreased 2.8% to \$14.7 million as compared to \$15.2 million in fiscal 2016. This decrease is the result of lower borrowings during fiscal 2017 stemming from mandatory and elective principal reductions, partially offset by higher interest rates. For additional information on outstanding debt, see Note 13 to the Consolidated Financial Statements. As of February 28, 2017, we had outstanding debt of \$272.3 million compared to \$327.0 million at the end of fiscal 2016. AZZ's debt to equity ratio was 0.51 to 1 at the end of fiscal 2017 compared to 0.68 to 1 at the end of fiscal 2016.

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

We recorded a net loss of \$0.1 million from the sale of property, plant and equipment and insurance proceeds in fiscal 2017. This net loss was the result of the sale of miscellaneous equipment during the year. 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.

Other (Income) Expense

For fiscal 2017, a total of \$1.2 million in income was recorded to other (income) expense, net, which was primarily attributable to a reimbursement of legal fees of \$0.6 million from a lawsuit in fiscal 2016 and net foreign exchange gains. For fiscal 2016, we recorded \$3.1 million of expense to other (income) expense, net, which was attributable to a fourth quarter settlement of a commercial lawsuit, in addition to some currency translation losses.

Provision For Income Taxes

The provision for income taxes reflected an effective tax rate of 28.2% for fiscal 2017 and 26.2% for fiscal 2016. 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.

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

## Backlog

We ended fiscal 2016 with a backlog of \$310.6 million, an increase of 5.3% as compared to fiscal 2015. The Company's backlog as of year end pertains to the Energy Segment's operations. The book-to-ship ratio remained relatively flat compared to fiscal 2015. The book-to-ship ratio was 1.02 to 1 for fiscal 2017 and 1.01 to 1 for fiscal 2016.

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

## Backlog Table

(In thousands)

(Restated)

|                     | Period Ended |           | Period Ended |           |
|---------------------|--------------|-----------|--------------|-----------|
| Backlog             | 2/28/2015    | \$294,970 | 2/28/2014    | \$290,393 |
| Bookings            |              | 905,053   |              | 824,269   |
| Shipments           |              | 889,400   |              | 819,692   |
| Backlog as reported | 2/29/2016    | \$310,623 | 2/28/2015    | \$294,970 |
| Book-to-Ship Ratio  |              | 1.02      |              | 1.01      |

## Net Sales

Our total net sales for fiscal 2016 increased by \$69.7 million, or 8.5%, as compared to fiscal 2015.

The following table reflects the breakdown of revenue by segment:

|  | 2016           | 2015       |
|--|----------------|------------|
|  | (Restated)     | (Restated) |
|  | (In thousands) |            |

## Net sales:

|                 |           |           |
|-----------------|-----------|-----------|
| Energy          | \$487,038 | \$461,344 |
| Galvanizing     | 402,362   | 358,348   |
| Total Net Sales | \$889,400 | \$819,692 |

Our Energy Segment recorded net sales for fiscal 2016 of \$487.0 million, an increase of 5.6% compared to fiscal 2015 net sales of \$461.3 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.

Our Galvanizing Segment, which consisted of forty-three hot dip galvanizing facilities as of February 28, 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 \$16.7 million, or 42.0%, for fiscal 2016, to \$56.5 million as compared to \$39.8 million for fiscal 2015. Operating margins for this segment were 11.6% for fiscal 2016 as compared to 8.6% 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 7 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 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.



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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 13 to the Consolidated Financial Statements. As of February 29, 2016, we had gross 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 plant, property and equipment and insurance proceeds during 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 26.2% for fiscal 2016 and 28.1% 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.

**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 2017 was \$111.2 million compared to \$143.6 million provided by operating activities for fiscal 2016. The decrease in cash provided by operating activities for fiscal 2017 is attributable to a decrease in net income and by a less favorable impact of changes in working capital.

Net cash used in investing activities for fiscal 2017 was \$63.3 million compared to net cash used in investing activities of \$99.3 million for fiscal 2016. The decrease in cash used during fiscal 2017 was primarily attributable to fewer acquisitions, partially offset by increased capital expenditures.

Net cash used in financing activities for fiscal 2017 was \$76.6 million compared to net cash used in financing activities of \$25.3 million for fiscal 2016. The increase in cash used during fiscal 2017 was primarily attributable to increased net principal payments under our debt agreements and the purchase of 100,000 treasury shares.

We consider the undistributed earnings of our foreign subsidiaries as of fiscal year ended February 28, 2017, 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

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indefinitely invested outside the United States. As of fiscal year ended February 28, 2017, the amount of cash associated with indefinitely reinvested foreign earnings was approximately \$7.2 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 2017, we spent \$64.1 million on capital expenditures including acquisitions, net of cash. The breakdown of capital spending by segment for fiscal 2017, 2016 and 2015 can be found in Note 14 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.

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

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

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

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

On March 21, 2017, we executed the Amended and Restated Credit Agreement (the “2017 Credit Agreement”) with Bank of America and other lenders. The 2017 Credit Agreement amended the Credit Agreement entered into on March 27, 2013 by the following: (i) extending the maturity date until March 21, 2022, (ii) providing for a senior revolving credit facility in a principal amount of up to \$450 million, with an additional \$150 million accordion, (iii) including a \$75 million sublimit for the issuance of standby and commercial letters of credit, (iv) including a \$30 million sublimit for swing line loans, (v) restricting indebtedness incurred in respect of capital leases, synthetic lease obligations and purchase money obligations not to exceed \$20 million, (vi) restricting investments in any foreign subsidiaries not to exceed \$50 million in the aggregate, and (vii) including various financial covenants and certain restricted payments relating to dividends and share repurchases as specifically set forth in the 2017 Credit Agreement. The 2017 Credit Agreement will be used to finance working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

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



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

The 2008 Notes and the 2011 Notes each provide for various financial covenants requiring us, among other things, to a) maintain on a consolidated basis net worth (as defined in the Note Purchase Agreement) equal to at least the sum of \$116.9 million plus 50.0% of future net income; b) maintain a ratio of indebtedness to EBITDA (as defined in Note Purchase Agreement) not to exceed

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3.25:1.00; c) maintain on a consolidated basis a Fixed Charge Coverage Ratio (as defined in the Note Purchase Agreement) of at least 2.0:1.0; d) not at any time permit the aggregate amount of all Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 10.0% of Consolidated Net Worth.

As of February 28, 2017, 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 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<br>Leases | Debt      | Interest | Total     |
|------------|---------------------|-----------|----------|-----------|
|            | (In thousands)      |           |          |           |
| 2018       | \$6,627             | \$16,629  | \$11,573 | \$34,829  |
| 2019       | 5,629               | 130,661   | 8,079    | 144,369   |
| 2020       | 3,347               | —         | 6,775    | 10,122    |
| 2021       | 2,655               | 125,000   | 6,775    | 134,430   |
| 2022       | 2,542               | —         | —        | 2,542     |
| Thereafter | 8,042               | —         | —        | 8,042     |
| Total      | \$28,842            | \$272,290 | \$33,202 | \$334,334 |

**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 28, 2017, the Company had outstanding letters of credit in the amount of \$23.1 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 28, 2017, a warranty reserve in the amount of \$2.1 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,

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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 NLI on June 1, 2012, the Company had a contingent obligation to make an additional payment of up to \$20.0 million based on the future financial performance of the NLI business. During fiscal 2015, the Company deemed this additional payment not probable or likely to occur and the accrual recorded at the end of fiscal 2014 of \$9.1 million was reversed. The accrual reversal was recorded to selling, general and administrative expense. As of June 2016, the measurement period for this contingency payment has expired and no additional payment was made.

**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 that 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

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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.

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 \$24.8 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

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.

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.

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 28, 2017, 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

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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 28, 2017, 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.

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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. (the “Company”) as of February 28, 2017 and February 29, 2016 and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended February 28, 2017. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as of and for the three years in the period ended February 28, 2017 listed in Item 15 of this Form 10-K/A. We have also audited AZZ Inc.’s internal control over financial reporting as of February 28, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company’s management is responsible for the financial statements, the financial statement schedule, maintaining effective internal control over financial reporting, and 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 and financial statement schedule as of February 28, 2017 and February 29, 2016 and for each of the three years in the period ended February 28, 2017 and on the Company’s internal control over financial reporting as of February 28, 2017 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 are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. An audit of the financial statements includes 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 presentation of the financial statements and financial statement schedule. 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 audit of internal control over financial reporting 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 28, 2017 and February 29, 2016 and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2017, in conformity with accounting principles generally accepted in the United States of America.

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 discussed in Note 2 to the consolidated financial statements, the accompanying February 28, 2017 and February 29, 2016 consolidated financial statements have been restated to correct misstatements.

In our report dated April 20, 2017, we expressed an unqualified opinion on the effectiveness of internal control over financial reporting as of February 28, 2017. Subsequent to April 20, 2017, the Company identified a material misstatement in its annual and quarterly consolidated financial statements for the fiscal year ended February 28, 2017, requiring restatement of such financial statements. Management revised its assessment of internal control over financial reporting due to the identification of a material weakness, described in the following paragraph, in connection with the financial statement restatement. Accordingly, our opinion on the effectiveness of AZZ Inc.'s internal control over financial reporting as of February 28, 2017 expressed herein is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's design of controls pertaining to the Company's review and ongoing monitoring of its revenue recognition policies has been identified and described in management's revised assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements (as restated).

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In our opinion, AZZ Inc. did not maintain, in all material respects, effective internal control over financial reporting as of February 28, 2017, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

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 Power Electronics, Inc. ("PEI"), whose acquisition was completed on March 1, 2016. PEI is included in the consolidated balance sheet of AZZ Inc. as of February 28, 2017 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended. PEI constituted approximately 1.8% of the Company's total assets as of February 28, 2017 and 4.0% and 8.3% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of PEI 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 PEI.

/s/ BDO USA, LLP

Dallas, Texas

April 20, 2017 (April 19, 2018 as to i) the effects of the restatement described in Note 2, and ii) the effects of the material weakness)

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CONSOLIDATED STATEMENTS OF INCOME

|  | Year Ended                            |                                 |                                 |
|--|---------------------------------------|---------------------------------|---------------------------------|
|  | February 28, 2017<br>(Restated)       | February 29, 2016<br>(Restated) | February 28, 2015<br>(Restated) |
|  | (In thousands, except per share data) |                                 |                                 |
| Net Sales  | \$863,538                             | \$889,400                       | \$819,692                       |
| Cost of Sales  | 658,206                               | 661,282                         | 612,919                         |
| Gross Profit   | 205,332                               | 228,118                         | 206,773                         |
| Selling, General and Administrative  | 106,424                               | 107,823                         | 98,871                          |
| Operating Income   | 98,908                                | 120,295                         | 107,902                         |
| Interest Expense   | 14,732                                | 15,155                          | 16,561                          |
| Net (Gain) Loss On Sale of Property, Plant and Equipment, and Insurance Proceeds | 76                                    | (327)                           | (2,525)                         |
| Other Expense (Income) - net   | (1,197)                               | 3,092                           | 2,659                           |
| Income Before Income Taxes   | 85,297                                | 102,375                         | 91,207                          |
| Income Tax Expense   | 24,033                                | 26,831                          | 25,591                          |
| Net Income   | \$61,264                              | \$75,544                        | \$65,616                        |
| Earnings Per Common Share  |                                       |                                 |                                 |
| Basic Earnings Per Share   | \$2.36                                | \$2.93                          | \$2.56                          |
| Diluted Earnings Per Share   | \$2.35                                | \$2.91                          | \$2.55                          |
| Weighted Average Shares Outstanding  |                                       |                                 |                                 |
| Basic  | 25,965                                | 25,800                          | 25,676                          |
| Diluted  | 26,097                                | 25,937                          | 25,778                          |

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

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|   | Year Ended<br>February 28, 2017<br>(Restated)<br>(In thousands) | February 29, 2016<br>(Restated) | February 28, 2015<br>(Restated) |
|---|---|---------------------------------|---------------------------------|
| Net Income  | \$ 61,264   | \$ 75,544                       | \$ 65,616                       |
| Other<br>Comprehensive<br>Loss:   |   |                                 |                                 |
| Foreign Currency<br>Translation<br>Adjustments -<br>Unrealized<br>Translation Gains<br>(Losses) | 1,520   | (7,674 )                        | (11,760 )                       |
| Interest Rate Swap,<br>Net of Income Tax<br>of \$29, \$29 and<br>\$29, respectively.            | (54 )   | (54 )                           | (54 )                           |
| Other<br>Comprehensive<br>Income (Loss)   | 1,466   | (7,728 )                        | (11,814 )                       |
| Comprehensive<br>Income   | \$ 62,730   | \$ 67,816                       | \$ 53,802                       |

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

AZZ Inc.  
CONSOLIDATED BALANCE SHEETS

|  | February<br>28, 2017<br>(Restated)    | February<br>29, 2016<br>(Restated) |
|--|---------------------------------------|------------------------------------|
|  | (In thousands, except per share data) |                                    |
| Assets   |                                       |                                    |
| Current assets:  |                                       |                                    |
| Cash and cash equivalents  | \$11,302                              | \$40,191                           |
| Accounts receivable, net of allowance for doubtful accounts of \$347 and \$264 in 2017 and 2016, respectively  | 138,470                               | 131,416                            |
| Inventories - net  | 94,007                                | 77,131                             |
| Costs and estimated earnings in excess of billings on uncompleted contracts  | 50,262                                | 63,482                             |
| Deferred income tax assets   | 249                                   | 200                                |
| Prepaid expenses and other   | 2,762                                 | 3,105                              |
| Total current assets   | 297,052                               | 315,525                            |
| Property, plant, and equipment, net  | 228,610                               | 226,333                            |
| Goodwill   | 306,579                               | 292,527                            |
| Intangibles and other assets   | 146,113                               | 153,816                            |
|  | \$978,354                             | \$988,201                          |
| Liabilities and Shareholders' Equity   |                                       |                                    |
| Current liabilities:   |                                       |                                    |
| Accounts payable   | \$49,816                              | \$46,748                           |
| Income tax payable   | 778                                   | 2,697                              |
| Accrued salaries and wages   | 23,429                                | 30,473                             |
| Other accrued liabilities  | 24,042                                | 26,137                             |
| Customer deposits  | 1,459                                 | —                                  |
| Billings in excess of costs and estimated earnings on uncompleted contracts  | 20,617                                | 20,302                             |
| Debt due within one year   | 16,629                                | 23,192                             |
| Total current liabilities  | 136,770                               | 149,549                            |
| Debt due after one year, net   | 254,800                               | 302,429                            |
| Deferred income tax liabilities  | 53,648                                | 51,853                             |
| Total liabilities  | 445,218                               | 503,831                            |
| Commitments and Contingencies  |                                       |                                    |
| Shareholders' equity:  |                                       |                                    |
| Common Stock, \$1.00 par value; 100,000 shares authorized; 25,964 shares issued and outstanding at February 28, 2017 and 25,874 at February 29, 2016 | 25,964                                | 25,874                             |
| Capital in excess of par value   | 37,739                                | 35,148                             |
| Retained earnings  | 498,527                               | 453,908                            |
| Accumulated other comprehensive loss   | (29,094 )                             | (30,560 )                          |
| Total shareholders' equity   | 533,136                               | 484,370                            |
|  | \$978,354                             | \$988,201                          |

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

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended                         |                                    |                                    |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | February<br>28, 2017<br>(Restated) | February<br>29, 2016<br>(Restated) | February<br>28, 2015<br>(Restated) |
|   | (In thousands)                     |                                    |                                    |
| Cash flows from operating activities:   |                                    |                                    |                                    |
| Net income  | \$61,264                           | \$75,544                           | \$65,616                           |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                                    |                                    |                                    |
| Depreciation and amortization   | 50,357                             | 47,417                             | 46,089                             |
| Deferred income taxes   | 1,714                              | 1,960                              | 16,222                             |
| Net loss on disposition of property, plant & equipment due to realignment               | 6,602                              | 286                                | 2,651                              |
| Net (gain) loss on sale of property, plant & equipment and insurance proceeds           | 76                                 | (327)                              | (2,525)                            |
| Share-based compensation expense  | 5,870                              | 4,538                              | 4,080                              |
| Amortization of deferred debt issuance costs  | 1,262                              | 1,347                              | 1,431                              |
| Provision for doubtful accounts   | 48                                 | (1,072)                            | 458                                |
| Effects of changes in operating assets and liabilities, net of acquisitions:            |                                    |                                    |                                    |
| Accounts receivable   | (4,912)                            | (843)                              | (9,382)                            |
| Inventories   | (13,754)                           | (2,052)                            | (3,363)                            |
| Prepaid expenses and other assets   | (1,977)                            | 1,996                              | 5,543                              |
| Net change in billings related to costs and estimated earnings on uncompleted contracts | 13,592                             | 7,276                              | (13,823)                           |
| Accounts payable  | 1,245                              | (2,236)                            | 11,025                             |
| Other accrued liabilities and income taxes payable                                      | (10,211)                           | 9,755                              | (5,865)                            |
| Net cash provided by operating activities:  | 111,176                            | 143,589                            | 118,157                            |
| Cash flows from investing activities:   |                                    |                                    |                                    |
| Proceeds from the sale or insurance settlement of property, plant, and equipment        | 769                                | 1,137                              | 1,330                              |
| Acquisition of subsidiaries, net of cash acquired                                       | (22,679)                           | (60,584)                           | (11,518)                           |
| Purchases of property, plant and equipment  | (41,434)                           | (39,861)                           | (29,377)                           |
| Net cash used in investing activities:  | (63,344)                           | (99,308)                           | (39,565)                           |
| Cash flows from financing activities:   |                                    |                                    |                                    |
| Excess tax benefits from share-based compensation                                       | —                                  | 1,025                              | 259                                |
| Proceeds from revolving loan  | 179,500                            | 181,481                            | 10,977                             |
| Payments on revolving loan  | (211,000)                          | (170,561)                          | (57,905)                           |
| Payments on long-term debt  | (23,192)                           | (21,786)                           | (20,848)                           |
| Purchases of treasury shares  | (5,282)                            | —                                  | —                                  |
| Payment of dividends  | (16,645)                           | (15,482)                           | (14,897)                           |
| Net cash used in financing activities:  | (76,619)                           | (25,323)                           | (82,414)                           |
| Effect of exchange rate changes on cash and cash equivalents                            | (102)                              | (1,294)                            | (1,216)                            |
| Net change in cash and cash equivalents   | (28,889)                           | 17,664                             | (5,038)                            |
| Cash and cash equivalents, beginning of year  | 40,191                             | 22,527                             | 27,565                             |
| Cash and cash equivalents, end of year  | \$11,302                           | \$40,191                           | \$22,527                           |
| Supplemental disclosures of cash flow information:                                      |                                    |                                    |                                    |
| Cash paid for interest  | \$13,780                           | \$14,228                           | \$15,613                           |
| Cash paid for income taxes  | \$19,857                           | \$21,574                           | \$15,264                           |



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

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AZZ Inc.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

|  | Common Stock   |          | Capital<br>in<br>excess of<br>par<br>value | Retained<br>earnings<br><br>(Restated) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br><br>(Restated) |
|--|----------------|----------|--|--|--|-------------------------|
|  | Shares         | Amount   |  |  |  |                         |
|  | (In thousands) |          |  |  |  |                         |
| Balance at February 28, 2014, as restated            | 25,577         | \$25,577 | \$21,954                                   | \$343,127                              | \$ (11,018 )   | \$379,640               |
| 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<br>share-based compensation | —              | —        | 259  | —                                      | —  | 259                     |
| Cash dividend paid                                   | —              | —        | —  | (14,897 )                              | —  | (14,897 )               |
| Net income, as restated                              | —              | —        | —  | 65,616                                 | —  | 65,616                  |
| Foreign currency translation                         | —              | —        | —  | —                                      | (11,760 )  | (11,760 )               |
| Interest rate swap, net of \$29 of income tax        | —              | —        | —  | —                                      | (54 )  | (54 )                   |
| Balance at February 28, 2015, as restated            | 25,732         | \$25,732 | \$27,706                                   | \$393,846                              | \$ (22,832 )   | \$424,452               |
| 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<br>share-based compensation | —              | —        | 1,025                                      | —                                      | —  | 1,025                   |
| Cash dividend paid                                   | —              | —        | —  | (15,482 )                              | —  | (15,482 )               |
| Net income, as restated                              | —              | —        | —  | 75,544                                 | —  | 75,544                  |
| Foreign currency translation                         | —              | —        | —  | —                                      | (7,674 )   | (7,674 )                |
| Interest rate swap, net of \$29 of income tax        | —              | —        | —  | —                                      | (54 )  | (54 )                   |
| Balance at February 29, 2016, as restated            | 25,874         | \$25,874 | \$35,148                                   | \$453,908                              | \$ (30,560 )   | \$484,370               |
| Stock compensation                                   | 13             | 13       | 5,857                                      | —                                      | —  | 5,870                   |
| Restricted Stock Units                               | 25             | 25       | (605 )                                     | —                                      | —  | (580 )                  |
| Stock issued for SARs                                | 81             | 81       | (322 )                                     | —                                      | —  | (241 )                  |
| Employee Stock Purchase Plan                         | 71             | 71       | 2,843                                      | —                                      | —  | 2,914                   |
| Retirement of treasury shares                        | (100 )         | (100 )   | (5,182 )                                   | —                                      | —  | (5,282 )                |
| Cash dividend paid                                   | —              | —        | —  | (16,645 )                              | —  | (16,645 )               |
| Net income, as restated                              | —              | —        | —  | 61,264                                 | —  | 61,264                  |
| Foreign currency translation                         | —              | —        | —  | —                                      | 1,520  | 1,520                   |
| Interest rate swap, net of \$29 of income tax        | —              | —        | —  | —                                      | (54 )  | (54 )                   |
| Balance at February 28, 2017, as restated            | 25,964         | \$25,964 | \$37,739                                   | \$498,527                              | \$ (29,094 )   | \$533,136               |

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

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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 14 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. 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:

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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 of 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 28, 2017, no impairment of long-lived assets, intangible assets or goodwill was determined.

Debt issuance costs—Debt issue costs related to the revolver are included in other assets and are amortized using the effective interest rate method over the term of the debt. Debt issue costs related to debt other than the revolver are netted with total debt due after one year and 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 2017, the Company is no longer subject to U.S. federal or state examinations by tax authorities for years before fiscal 2014.

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 12 to the Consolidated Financial Statements.

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AZZ Inc.

## NOTES TO 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 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 2017 and 2016 the fair value of our senior outstanding notes, as described in Note 13 to the Consolidated Financial Statements, was approximately \$144.4 million and \$154.7 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 2017 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 partially offset by increased 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 28, 2017, 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, 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  |
| Warranty costs incurred      | (1,947 ) |
| Additions charged to income  | 1,130    |
| Balance at February 28, 2017 | \$2,098  |

Accumulated Other Comprehensive Income (Loss)—Accumulated Other Comprehensive Income (Loss) includes foreign currency translation adjustments from our foreign subsidiaries.

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, the Company had a contingent obligation to make an additional payment of up to \$20.0 million based on



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the future financial performance of the NLI business. During fiscal 2015, the Company deemed this additional payment not probable or likely to occur and the accrual recorded at the end of fiscal 2014 of \$9.1 million was reversed. The accrual reversal was recorded to selling, general and administrative expense. As of June 2016, the measurement period for this contingency payment has expired and no additional payment was made.

## Accounting Standards Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendment in this ASU affects all organizations that issue share-based payment awards to employees and is intended to simplify several aspects of the accounting for these awards, including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and allowing an accounting policy election to account for forfeitures as they occur. As permitted by ASU 2016-09, the Company elected to early adopt ASU 2016-09 in the quarter ended August 31, 2016 with an effective date of March 1, 2016. As a result of the adoption, a tax benefit of \$1.3 million was recorded in the quarter ended August 31, 2016. The tax benefit was driven primarily by the exercise, during the first six months of fiscal 2017, of share-based awards issued prior to fiscal 2014. The adoption was on a prospective basis and therefore had no impact on prior years. In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Previously, debt issuance costs were recognized as deferred charges and recorded as other assets. In August 2015, the FASB issued ASU 2015-15, "Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." ASU 2015-15 allows an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted and is to be implemented retrospectively. Effective March 1, 2016, we adopted these standards which required the retroactive application and represented a change in accounting principle. The unamortized debt issuance costs of approximately \$1.4 million associated with a portion of our outstanding debt, which were previously presented as a component of intangibles and other assets on the consolidated balance sheets, are reflected as a reduction to the carrying liability of our outstanding debt. Debt issuance costs associated with our revolving line of credit remain classified in intangibles and other assets and continue to be charged to interest expense over the term of the agreement. As a result of this change in accounting principal, the consolidated balance sheet as of February 29, 2016 was adjusted as follows:

February 29, 2016  
Effect of  
Previously Adoption of As  
Reported Accounting Adjusted  
Principle  
(in thousands)

## Assets:

|                              |            |            |              |
|------------------------------|------------|------------|--------------|
| Intangibles and other assets | \$ 155,177 | \$ (1,361) | ) \$ 153,816 |
| Total assets                 | \$ 983,371 | \$ (1,361) | ) \$ 982,010 |

## Liabilities:

|                         |            |            |              |
|-------------------------|------------|------------|--------------|
| Debt due after one year | \$ 303,790 | \$ (1,361) | ) \$ 302,429 |
| Total liabilities       | \$ 502,155 | \$ (1,361) | ) \$ 500,794 |

## New Accounting Pronouncements

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

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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 planning on adopting this standard retrospectively. We believe this standard will impact the current accounting for contracts accounted for under the percentage of completion method of revenue recognition, however the overall impact to the prior year financial results is still under review.

## 2. Restatement of Previously Issued Financial Statements

As previously disclosed, the Company determined that for certain contracts within its Energy Segment for which revenue was historically recognized upon contract completion and transfer of title, the Company instead should have applied the percentage-of-completion method in accordance with the FASB's Accounting Standards Codification No. 605-35, Construction-Type and Production-Type Contracts. In general, the percentage-of-completion method results in a revenue recognition pattern over time as a project progresses as opposed to deferring revenues until contract completion.

The Company concluded that the impact of applying the percentage-of-completion method to its revenue contracts was materially different from its previously reported results under its historical practice. As a result, the Company is restating its consolidated financial statements for the periods impacted. The following financial tables reconcile the previously reported amounts to the restated amounts for each consolidated financial statement.

The table below sets forth the consolidated statements of income, including the balances originally reported, corrections and the as restated balances for each fiscal year:

|                            | Year Ended                            |            | February 29, 2016 |           |             |           |
|----------------------------|---------------------------------------|------------|-------------------|-----------|-------------|-----------|
|                            | February 28, 2017                     |            | As                | As        | Correction  | As        |
|                            | As                                    | Correction | Restated          | Reported  |             | Restated  |
|                            | (In thousands, except per share data) |            |                   |           |             |           |
| Net Sales                  | \$858,930                             | \$ 4,608   | \$863,538         | \$903,192 | \$(13,792 ) | \$889,400 |
| Cost of Sales              | 654,146                               | 4,060      | 658,206           | 673,081   | (11,799 )   | 661,282   |
| Gross Profit               | 204,784                               | 548        | 205,332           | 230,111   | (1,993 )    | 228,118   |
| Operating Income           | 98,360                                | 548        | 98,908            | 122,288   | (1,993 )    | 120,295   |
| Income Before Income Taxes | 84,749                                | 548        | 85,297            | 104,368   | (1,993 )    | 102,375   |
| Income Tax Expense         | 23,828                                | 205        | 24,033            | 27,578    | (747 )      | 26,831    |
| Net Income                 | \$60,921                              | \$ 343     | \$61,264          | \$76,790  | \$(1,246 )  | \$75,544  |
| Earnings Per Common Share  |                                       |            |                   |           |             |           |
| Basic Earnings Per Share   | \$2.35                                | \$ 0.01    | \$2.36            | \$2.98    | \$(0.05 )   | \$2.93    |
| Diluted Earnings Per Share | \$2.33                                | \$ 0.02    | \$2.35            | \$2.96    | \$(0.05 )   | \$2.91    |



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|                            | Year Ended<br>February 28, 2015       |            |                |
|----------------------------|---------------------------------------|------------|----------------|
|                            | As<br>Reported                        | Correction | As<br>Restated |
|                            | (In thousands, except per share data) |            |                |
| Net Sales                  | \$816,687                             | \$ 3,005   | \$819,692      |
| Cost of Sales              | 610,991                               | 1,928      | 612,919        |
| Gross Profit               | 205,696                               | 1,077      | 206,773        |
| Operating Income           | 106,825                               | 1,077      | 107,902        |
| Income Before Income Taxes | 90,130                                | 1,077      | 91,207         |
| Income Tax Expense         | 25,187                                | 404        | 25,591         |
| Net Income                 | \$64,943                              | \$ 673     | \$65,616       |
| Earnings Per Common Share  |                                       |            |                |
| Basic Earnings Per Share   | \$2.53                                | \$ 0.03    | \$2.56         |
| Diluted Earnings Per Share | \$2.52                                | \$ 0.03    | \$2.55         |

The table below sets forth the consolidated statements of comprehensive income, including the balances originally reported, corrections and the as restated balances for each fiscal year:

|                      | Year Ended<br>February 28, 2017 |            |                | February 29, 2016 |            |                |
|----------------------|---------------------------------|------------|----------------|-------------------|------------|----------------|
|                      | As<br>Reported                  | Correction | As<br>Restated | As<br>Reported    | Correction | As<br>Restated |
|                      | (In thousands)                  |            |                |                   |            |                |
| Net Income           | \$60,921                        | \$ 343     | \$61,264       | \$76,790          | \$(1,246 ) | \$75,544       |
| Comprehensive Income | 62,387                          | 343        | 62,730         | 69,062            | (1,246 )   | 67,816         |

|                      | Year Ended<br>February 28, 2015 |            |                |
|----------------------|---------------------------------|------------|----------------|
|                      | As<br>Reported                  | Correction | As<br>Restated |
|                      | (In thousands)                  |            |                |
| Net Income           | \$64,943                        | \$ 673     | \$65,616       |
| Comprehensive Income | 53,129                          | 673        | 53,802         |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below sets forth the consolidated balance sheets, including the balances originally reported, corrections and the as restated balances for each fiscal year:

|   | February 28, 2017 |              |             | February 29, 2016 |              |             |
|---|-------------------|--------------|-------------|-------------------|--------------|-------------|
|   | As Reported       | Correction   | As Restated | As Reported       | Correction   | As Restated |
| Assets  | (In thousands)    |              |             |                   |              |             |
| Inventories - net   | \$ 123,208        | \$ (29,201 ) | \$ 94,007   | \$ 102,135        | \$ (25,004 ) | \$ 77,131   |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 20,546            | 29,716       | 50,262      | 32,287            | 31,195       | 63,482      |
| Total current assets  | 296,537           | 515          | 297,052     | 309,334           | 6,191        | 315,525     |
| Total assets  | \$ 977,839        | \$ 515       | \$ 978,354  | \$ 982,010        | \$ 6,191     | \$ 988,201  |
| Liabilities and Shareholders' Equity  |                   |              |             |                   |              |             |
| Other accrued liabilities   | \$ 18,390         | \$ 5,652     | \$ 24,042   | \$ 20,406         | \$ 5,731     | \$ 26,137   |
| Customer deposits   | 20,860            | (19,401 )    | 1,459       | 15,652            | (15,652 )    | \$—         |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 11,948            | 8,669        | 20,617      | 9,237             | 11,065       | 20,302      |
| Total current liabilities   | 141,850           | (5,080 )     | 136,770     | 148,405           | 1,144        | 149,549     |
| Deferred income tax liabilities   | 51,550            | 2,098        | 53,648      | 49,960            | 1,893        | 51,853      |
| Total liabilities   | 448,200           | (2,982 )     | 445,218     | 500,794           | 3,037        | 503,831     |
| Shareholders' equity:   |                   |              |             |                   |              |             |
| Retained earnings   | 495,030           | 3,497        | 498,527     | 450,754           | 3,154        | 453,908     |
| Total shareholders' equity  | 529,639           | 3,497        | 533,136     | 481,216           | 3,154        | 484,370     |
| Total liabilities and shareholders' equity                                  | \$ 977,839        | \$ 515       | \$ 978,354  | \$ 982,010        | \$ 6,191     | \$ 988,201  |

The table below sets forth the consolidated statements of cash flows from operating activities, including the balances originally reported, corrections and the as restated balances for each fiscal year:

|   | Year Ended February 28, 2017 |            |             | Year Ended February 29, 2016 |             |             |
|---|------------------------------|------------|-------------|------------------------------|-------------|-------------|
|   | As Reported                  | Correction | As Restated | As Reported                  | Correction  | As Restated |
| Cash flows from operating activities:   | (In thousands)               |            |             |                              |             |             |
| Net income  | \$ 60,921                    | \$ 343     | \$ 61,264   | \$ 76,790                    | \$ (1,246 ) | \$ 75,544   |
| Deferred income taxes   | 1,509                        | 205        | 1,714       | 2,707                        | (747 )      | 1,960       |
| Inventories   | (17,951 )                    | 4,197      | (13,754 )   | 11,124                       | (13,176 )   | (2,052 )    |
| Net change in billings related to costs and estimated earnings on uncompleted contracts | 14,509                       | (917 )     | 13,592      | 5,739                        | 1,537       | 7,276       |
| Other accrued liabilities and income taxes payable                                      | (6,383 )                     | (3,828 )   | (10,211 )   | (3,877 )                     | 13,632      | 9,755       |
| Net cash provided by operating activities:  | \$ 111,176                   | \$ —       | \$ 111,176  | \$ 143,589                   | \$ —        | \$ 143,589  |



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|   | Year Ended<br>February 28, 2015 |            |                |
|---|---------------------------------|------------|----------------|
|   | As<br>Reported                  | Correction | As<br>Restated |
|   | (In thousands)                  |            |                |
| Cash flows from operating activities:   |                                 |            |                |
| Net income  | \$64,943                        | \$ 673     | \$65,616       |
| Deferred income taxes   | 15,818                          | 404        | 16,222         |
| Inventories   | (879 )                          | (2,484 )   | (3,363 )       |
| Net change in billings related to costs and estimated earnings on uncompleted contracts | (5,635 )                        | (8,188 )   | (13,823 )      |
| Other accrued liabilities and income taxes payable                                      | (15,460 )                       | 9,595      | (5,865 )       |
| Net cash provided by operating activities:  | \$118,157                       | \$ —       | \$118,157      |

The restatement had no impact on cash flows from investing activities or financing activities.

The table below sets forth the consolidated statements of shareholders' equity, including the balances originally reported, corrections and the as restated balances for each fiscal year:

|   | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---|----------------------|----------------------------------|
|   | (In thousands)       |                                  |
| Balance at February 28, 2014, as reported | \$339,400            | \$ 375,913                       |
| Correction                                | 3,727                | 3,727                            |
| Balance at February 28, 2014, as restated | \$343,127            | \$ 379,640                       |
| Balance at February 28, 2015, as reported | \$389,446            | \$ 420,052                       |
| Correction                                | 4,400                | 4,400                            |
| Balance at February 28, 2015, as restated | \$393,846            | \$ 424,452                       |
| Balance at February 29, 2016, as reported | \$450,754            | \$ 481,216                       |
| Correction                                | 3,154                | 3,154                            |
| Balance at February 29, 2016, as restated | \$453,908            | \$ 484,370                       |
| Balance at February 28, 2017, as reported | \$495,030            | \$ 529,639                       |
| Correction                                | 3,497                | 3,497                            |
| Balance at February 28, 2017, as restated | \$498,527            | \$ 533,136                       |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below sets forth the unaudited selected quarterly financial data, including the balances originally reported, corrections and the as restated balances for each fiscal quarter:

|                            | Quarter Ended                         |            | August 31, 2016   |           |              |           |
|----------------------------|---------------------------------------|------------|-------------------|-----------|--------------|-----------|
|                            | May 31, 2016                          |            | As                | As        | As           | As        |
|                            | Reported                              | Correction | Restated          | Reported  | Correction   | Restated  |
|                            | (In thousands, except per share data) |            |                   |           |              |           |
| Net sales                  | \$242,667                             | \$ 7,699   | \$250,366         | \$195,045 | \$ 5,745     | \$200,790 |
| Gross profit               | 63,327                                | 1,801      | 65,128            | 41,886    | 218          | 42,104    |
| Net income                 | 21,063                                | 1,126      | 22,189            | 10,023    | 136          | 10,159    |
| Basic earnings per share   | 0.81                                  | 0.05       | 0.86              | 0.39      | —            | 0.39      |
| Diluted earnings per share | 0.81                                  | 0.04       | 0.85              | 0.38      | 0.01         | 0.39      |
|                            | Quarter Ended                         |            | February 28, 2017 |           |              |           |
|                            | November 30, 2016                     |            | As                | As        | As           | As        |
|                            | Reported                              | Correction | Restated          | Reported  | Correction   | Restated  |
|                            | (In thousands, except per share data) |            |                   |           |              |           |
| Net sales                  | \$227,459                             | \$ 657     | \$228,116         | \$193,759 | \$ (9,493 )  | \$184,266 |
| Gross profit               | 53,866                                | (2,569 )   | 51,297            | 45,705    | 1,098        | 46,803    |
| Net income                 | 18,251                                | (1,605 )   | 16,646            | 11,584    | 686          | 12,270    |
| Basic earnings per share   | 0.70                                  | (0.06 )    | 0.64              | 0.45      | 0.02         | 0.47      |
| Diluted earnings per share | 0.70                                  | (0.06 )    | 0.64              | 0.44      | 0.03         | 0.47      |
|                            | Quarter Ended                         |            | August 31, 2015   |           |              |           |
|                            | May 31, 2015                          |            | As                | As        | As           | As        |
|                            | Reported                              | Correction | Restated          | Reported  | Correction   | Restated  |
|                            | (In thousands, except per share data) |            |                   |           |              |           |
| Net sales                  | \$228,888                             | \$ 11,552  | \$240,440         | \$214,246 | \$ (14,576 ) | \$199,670 |
| Gross profit               | 59,304                                | 4,400      | 63,704            | 53,505    | (3,803 )     | 49,702    |
| Net income                 | 19,924                                | 2,750      | 22,674            | 17,243    | (2,377 )     | 14,866    |
| Basic earnings per share   | 0.77                                  | 0.11       | 0.88              | 0.67      | (0.09 )      | 0.58      |
| Diluted earnings per share | 0.77                                  | 0.11       | 0.88              | 0.67      | (0.10 )      | 0.57      |
|                            | Quarter Ended                         |            | February 29, 2016 |           |              |           |
|                            | November 30, 2015                     |            | As                | As        | As           | As        |
|                            | Reported                              | Correction | Restated          | Reported  | Correction   | Restated  |
|                            | (In thousands, except per share data) |            |                   |           |              |           |
| Net sales                  | \$242,447                             | \$ (851 )  | \$241,596         | \$217,611 | \$ (9,917 )  | \$207,694 |
| Gross profit               | 62,448                                | (1,160 )   | 61,288            | 54,854    | (1,430 )     | 53,424    |
| Net income                 | 23,547                                | (725 )     | 22,822            | 16,076    | (894 )       | 15,182    |
| Basic earnings per share   | 0.91                                  | (0.03 )    | 0.88              | 0.62      | (0.03 )      | 0.59      |
| Diluted earnings per share | 0.91                                  | (0.03 )    | 0.88              | 0.62      | (0.04 )      | 0.58      |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition to the restated consolidated financial statements, the information contained in Notes 3, 5, 6, 9, 11, 14 and 16 has been restated.

## 3. Inventories

Inventories (net) consisted of the following at February 28, 2017 and February 29, 2016:

|                 | 2017           | 2016       |
|-----------------|----------------|------------|
|                 | (Restated)     | (Restated) |
|                 | (In thousands) |            |
| Raw materials   | \$80,169       | \$ 66,548  |
| Work-in-process | 6,832          | 3,535      |
| Finished goods  | 7,006          | 7,048      |
|                 | \$94,007       | \$ 77,131  |

## 4. Property, Plant, and Equipment

Property, plant and equipment consisted of the following at February 28, 2017 and February 29, 2016:

|   | 2017           | 2016       |
|---|----------------|------------|
|   | (In thousands) |            |
| Land  | \$22,360       | \$21,265   |
| Building and structures                     | 139,627        | 141,370    |
| Machinery and equipment                     | 228,246        | 215,796    |
| Furniture, fixtures, software and computers | 25,593         | 22,237     |
| Automotive equipment                        | 2,998          | 3,206      |
| Construction in progress                    | 23,669         | 12,827     |
|   | 442,493        | 416,701    |
| Less accumulated depreciation               | (213,883 )     | (190,368 ) |
| Net property, plant, and equipment          | \$228,610      | \$226,333  |

Depreciation expense was \$33.4 million, \$31.2 million, and \$28.1 million for fiscal 2017, 2016, and 2015, respectively.

## 5. Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consisted of the following at February 28, 2017 and February 29, 2016:

|   | 2017           | 2016       |
|---|----------------|------------|
|   | (Restated)     | (Restated) |
|   | (In thousands) |            |
| Costs incurred on uncompleted contracts | \$127,839      | \$195,751  |
| Estimated earnings                      | 53,598         | 78,667     |
|   | 181,437        | 274,418    |
| Less billings to date                   | 151,792        | 231,238    |
|   | \$29,645       | \$43,180   |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|   | 2017           | 2016       |
|---|----------------|------------|
|   | (Restated)     | (Restated) |
|   | (In thousands) |            |
| Cost and estimated earnings in excess of billings on uncompleted contracts  | \$50,262       | \$63,482   |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (20,617 )      | (20,302 )  |
|   | \$29,645       | \$43,180   |

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## 6. Other accrued liabilities

Other accrued liabilities consisted of the following at February 28, 2017 and February 29, 2016:

|                         | 2017           | 2016       |
|-------------------------|----------------|------------|
|                         | (Restated)     | (Restated) |
|                         | (In thousands) |            |
| Accrued interest        | \$2,036        | \$ 2,356   |
| Tenant improvements     | 278            | 507        |
| Accrued warranty        | 2,098          | 2,915      |
| Commissions             | 2,483          | 2,685      |
| Personnel expenses      | 8,251          | 8,456      |
| Group medical insurance | 1,969          | 1,699      |
| Other                   | 6,927          | 7,519      |
|                         | \$24,042       | \$ 26,137  |

## 7. Realignment Costs

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

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 28, 2017 and February 29, 2016:

|                            | 2017           | 2016  |
|----------------------------|----------------|-------|
|                            | (in thousands) |       |
| Realignment cost accrued   | \$61           | \$456 |
| Additions to reserve       | 1,260          | 437   |
| Realignment costs utilized | (1,014)        | (832) |
|                            | \$307          | \$61  |

## 8. Employee benefit plans

The Company has historically had 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 \$4.5 million, \$4.9 million, and \$10.0 million for fiscal 2017, 2016, and 2015, 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.

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## 9. Income taxes

The provision for income taxes consists of:

|   | 2017<br>(Restated)<br>(in thousands) | 2016<br>(Restated) | 2015<br>(Restated) |
|---|--------------------------------------|--------------------|--------------------|
| Income before income taxes:                         |                                      |                    |                    |
| Domestic  | \$74,972                             | \$93,561           | \$77,511           |
| Foreign   | 10,325                               | 8,814              | 13,696             |
| Income before income taxes                          | \$85,297                             | \$102,375          | \$91,207           |
| Current provision (benefit):                        |                                      |                    |                    |
| Federal   | \$23,282                             | \$28,099           | \$3,770            |
| Foreign   | 2,751                                | 2,706              | 3,025              |
| State and Local                                     | (696 )                               | (337 )             | 2,575              |
| Total current provision for income taxes            | \$25,337                             | \$30,468           | \$9,370            |
| Deferred provision (benefit):                       |                                      |                    |                    |
| Federal   | \$(2,486 )                           | \$(6,560 )         | \$15,859           |
| Foreign   | 189                                  | (123 )             | (858 )             |
| State and Local                                     | 993                                  | 3,046              | 1,220              |
| Total deferred provision (benefit) for income taxes | \$(1,304 )                           | \$(3,637 )         | \$16,221           |
| Total provision for income taxes                    | \$24,033                             | \$26,831           | \$25,591           |

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

|   | 2017<br>(Restated) | 2016<br>(Restated) | 2015<br>(Restated) |
|---|--------------------|--------------------|--------------------|
| Statutory federal income tax rate                           | 35.0 %             | 35.0 %             | 35.0 %             |
| Permanent differences                                       | 0.7                | 0.4                | 0.6                |
| State income taxes, net of federal income tax benefit       | 0.4                | (1.5 )             | 2.7                |
| Benefit of Section 199 of the Code, manufacturing deduction | (2.3 )             | (2.7 )             | (2.4 )             |
| Valuation allowance   | —                  | (1.2 )             | (3.4 )             |
| Stock compensation  | (1.8 )             | —                  | —                  |
| Tax credits   | (3.1 )             | (3.2 )             | (3.4 )             |
| Foreign tax rate differential                               | (0.8 )             | (0.4 )             | (0.7 )             |
| Other   | 0.1                | (0.2 )             | (0.3 )             |

|                           |      |   |      |   |      |   |
|---------------------------|------|---|------|---|------|---|
| Effective income tax rate | 28.2 | % | 26.2 | % | 28.1 | % |
|---------------------------|------|---|------|---|------|---|

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## 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:

|   | 2017<br>(Restated)<br>(In thousands) | 2016<br>(Restated) |
|---|--------------------------------------|--------------------|
| Deferred income tax assets:                         |                                      |                    |
| Employee related items                              | \$6,839                              | \$5,652            |
| Inventories   | 1,286                                | 1,106              |
| Accrued warranty                                    | 715                                  | 1,008              |
| Accounts receivable                                 | 261                                  | 173                |
| Net operating loss carry forward                    | 4,011                                | 2,903              |
|   | 13,112                               | 10,842             |
| Less: valuation allowance                           | (648 )                               | (648 )             |
| Total deferred income tax assets                    | 12,464                               | 10,194             |
| Deferred income tax liabilities:                    |                                      |                    |
| Depreciation methods and property basis differences | (27,913 )                            | (31,008 )          |
| Other assets and tax-deductible goodwill            | (37,950 )                            | (30,839 )          |
| Total deferred income tax liabilities               | (65,863 )                            | (61,847 )          |
| Net deferred income tax liabilities                 | \$(53,399)                           | \$(51,653)         |

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 2017, we have not made a provision for U.S. or additional foreign withholding taxes on approximately \$24.8 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 (NOL) Carryforward:

|         | 2017           | 2016    |
|---------|----------------|---------|
|         | (In thousands) |         |
| Federal | \$—            | \$—     |
| State   | \$4,011        | \$2,903 |
| Foreign | \$—            | \$—     |

As of February 28, 2017, the Company had pretax state NOL carryforwards of \$55.5 million which, if unused, will begin to expire in 2025.

As of fiscal year end 2017 and 2016, a portion of our deferred tax assets were the result of state NOL carryforwards. We believe that it is more likely than not that the benefit from certain state NOL carry forwards will not be realized. In recognition of this risk, we have provided a valuation allowance of \$0.6 million and \$0.6 million as of fiscal year end 2017 and 2016, respectively.

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.



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## 10. 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 28, 2017 and February 29, 2016 are as follows:

| Segment     | March 1,<br>2016 | Acquisitions | Foreign<br>Exchange<br>Translation | February 28,<br>2017 |
|-------------|------------------|--------------|------------------------------------|----------------------|
|             | (In thousands)   |              |                                    |                      |
| Galvanizing | \$109,314        | \$ —         | \$ 666                             | \$ 109,980           |
| Energy      | 183,213          | 13,386       | —                                  | 196,599              |
| Total       | \$292,527        | \$ 13,386    | \$ 666                             | \$ 306,579           |

| Segment     | March 1,<br>2015 | Acquisitions | Foreign<br>Exchange<br>Translation | February 29,<br>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           |

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 28, 2017 and February 29, 2016:

|                               | 2017           | 2016      |
|-------------------------------|----------------|-----------|
|                               | (In thousands) |           |
| Amortizable intangible assets |                |           |
| Customer related intangibles  | \$177,514      | \$169,637 |
| Non-compete agreements        | 5,651          | 5,596     |
| Trademarks                    | 4,569          | 4,569     |
| Technology                    | 7,400          | 7,400     |
| Engineering drawings          | 24,600         | 24,600    |
| Backlog                       | 7,600          | 7,600     |
|                               | 227,334        | 219,402   |
| Less accumulated amortization | (88,314 )      | (71,201 ) |
|                               | \$139,020      | \$148,201 |

The Company recorded amortization expense of \$16.9 million, \$16.2 million and \$18.0 million for fiscal 2017, 2016 and 2015, respectively. The following table projects the estimated amortization expense for the five succeeding fiscal years and thereafter.

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|            | (In thousands) |
|------------|----------------|
| 2018       | \$ 16,206      |
| 2019       | 15,354         |
| 2020       | 14,831         |
| 2021       | 14,665         |
| 2022       | 12,580         |
| Thereafter | 65,384         |
| Total      | \$ 139,020     |

## 11. 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 following table sets forth the computation of basic and diluted earnings per share:

|   | Year Ended                            |            |            |
|---|---------------------------------------|------------|------------|
|   | 2017                                  | 2016       | 2015       |
|   | (Restated)                            | (Restated) | (Restated) |
|   | (In thousands, except per share data) |            |            |
| Numerator:  |                                       |            |            |
| Net income for basic and diluted earnings per common share              | \$61,264                              | \$ 75,544  | \$ 65,616  |
| Denominator:  |                                       |            |            |
| Denominator for basic earnings per common share—weighted average shares | 25,965                                | 25,800     | 25,676     |
| Effect of dilutive securities:  |                                       |            |            |
| Employee and director stock awards                                      | 132                                   | 137        | 102        |
| Denominator for diluted earnings per common share                       | 26,097                                | 25,937     | 25,778     |
| Earnings per share basic and diluted:                                   |                                       |            |            |
| Basic earnings per common share   | \$2.36                                | \$ 2.93    | \$ 2.56    |
| Diluted earnings per common share                                       | \$2.35                                | \$ 2.91    | \$ 2.55    |

For fiscal 2017 and 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 were excluded from the computation of diluted earnings per share for fiscal 2015 as the effect would be anti-dilutive.

## 12. 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 28, 2017, the Company had approximately 1,270,511 shares reserved for future issuance under the Plan.

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## 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. Awards issued prior to fiscal 2015 generally have a three year cliff vesting schedule and awards issued subsequent to fiscal 2015 generally vest ratably over a period of three years but these awards may vest early in accordance with the Plan's accelerated vesting provisions.

The activity in our non-vested restricted stock unit awards for the year ended February 28, 2017 is as follows:

|  | Restricted<br>Stock Units | Weighted<br>Average Grant<br>Date Fair Value |
|--|---------------------------|--|
| Non-Vested Balance as of February 29, 2016 | 98,693                    | \$ 45.03                                     |
| Granted                                    | 73,921                    | 56.66  |
| Vested                                     | (35,330 )                 | 45.82  |
| Forfeited                                  | (2,737 )                  | 50.71  |
| Non-Vested Balance as of February 28, 2017 | 134,547                   | \$ 51.10                                     |

The total fair value of restricted stock units vested during fiscal years 2017, 2016, and 2015 was \$1.6 million, \$0.9 million and \$0.8 million, respectively. For fiscal years 2017, 2016 and 2015, there were 134,547, 98,693 and 77,446, respectively, of non-vested restricted stock units outstanding with weighted average grant date fair values of \$51.10, \$45.03 and \$41.31, 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 periods. In addition, a multiplier may be applied to the total awards granted which is based on the Company's total shareholder return during such three year period in comparison to a defined specific industry peer group as set forth in the plan.

The activity in our non-vested performance stock unit awards for the year ended February 28, 2017 is as follows:

|  | Performance<br>Stock Units | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--|----------------------------|--|
| Non-Vested Balance as of February 29, 2016 | 27,415                     | \$ 46.65   |
| Granted                                    | 24,011                     | 57.47  |
| Vested                                     | —                          | —  |
| Forfeited                                  | —                          | —  |
| Non-Vested Balance as of February 28, 2017 | 51,426                     | \$ 51.70   |

## 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 28, 2017, February 29, 2016 and February 28, 2015 is as follows:



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|  | 2017      |  | 2016     |  | 2015     |  |
|--|-----------|--|----------|--|----------|--|
|  | SAR's     | Weighted<br>Average<br>Exercise<br>Price | SAR's    | Weighted<br>Average<br>Exercise<br>Price | SAR's    | Weighted<br>Average<br>Exercise<br>Price |
| Outstanding at beginning of year   | 312,748   | \$ 34.23                                 | 376,982  | \$ 31.27                                 | 396,174  | \$ 26.64                                 |
| Granted  | —         | —  | —        | —  | 126,532  | 43.92                                    |
| Exercised  | (141,983) | 24.85                                    | (59,441) | 14.67                                    | (98,942) | 22.79                                    |
| Forfeited  | (626)     | 43.92                                    | (4,793)  | 44.56                                    | (46,782) | 44.14                                    |
| Outstanding at end of year   | 170,139   | \$ 42.02                                 | 312,748  | \$ 34.23                                 | 376,982  | \$ 31.27                                 |
| Exercisable at end of year   | 126,975   | \$ 41.27                                 | 217,961  | \$ 29.83                                 | 204,107  | \$ 21.55                                 |
| Weighted average fair value for the fiscal year indicated of SARs granted during such year |           | \$ —                                     |          | \$ —                                     |          | \$ 16.94                                 |

The average remaining contractual term for those stock appreciation rights outstanding as of February 28, 2017 was 3.52 years, with an aggregate intrinsic value of \$2.8 million. The average remaining contractual terms for those stock appreciation rights that are exercisable as of February 28, 2017 was 3.38 years, with an aggregate intrinsic value of \$2.2 million.

The following table summarizes additional information about stock appreciation rights outstanding at February 28, 2017.

| Range of<br>Exercise Prices | Total<br>SAR's | Average<br>Remaining<br>Life | Weighted<br>Average<br>Exercise<br>Price | SAR's<br>Currently<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
|-----------------------------|----------------|------------------------------|--|-----------------------------------|--|
| \$20.91                     | 9,954          | 1.00                         | \$ 20.91                                 | 9,954                             | \$ 20.91                                 |
| \$25.67                     | 9,538          | 2.00                         | \$ 25.67                                 | 9,538                             | \$ 25.67                                 |
| \$39.65                     | 950            | 3.52                         | \$ 39.65                                 | 950                               | \$ 39.65                                 |
| \$43.92                     | 89,180         | 4.01                         | \$ 43.92                                 | 56,016                            | \$ 43.92                                 |
| \$45.26                     | 40,000         | 3.68                         | \$ 45.26                                 | 30,000                            | \$ 45.26                                 |
| \$45.36                     | 19,758         | 3.00                         | \$ 45.36                                 | 19,758                            | \$ 45.36                                 |
| \$46.43                     | 759            | 3.72                         | \$ 46.43                                 | 759                               | \$ 46.43                                 |
| \$20.91 - \$46.43           | 170,139        | 3.52                         | \$ 42.02                                 | 126,975                           | \$ 41.27                                 |

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 subsequent to fiscal 2015. Assumptions used in the Black-Scholes option pricing model for fiscal year 2015 are as follows for all stock appreciation rights:

|                           | 2015            |
|---------------------------|-----------------|
| Expected term in years    | 4.5             |
| Expected dividend yield   | 1.20% – 1.32%   |
| Expected price volatility | 35.39% – 40.00% |
| Risk-free interest rate   | 2.32 – 2.73     |

## Directors Grants

The Company granted each of its independent directors a total of 1,641, 1,915 and 2,000 shares of its common stock during fiscal years 2017, 2016 and 2015, respectively. These common stock grants were valued at \$60.94, \$52.21 and \$44.90 per share for fiscal years 2017, 2016 and 2015, respectively, which was the market price of our common stock on the respective grant dates.





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## 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 ended February 28, 2017, February 29, 2016 and February 28, 2015:

| Year ended           | 2017           | 2016    | 2015    |
|----------------------|----------------|---------|---------|
|                      | (In thousands) |         |         |
| Compensation expense | \$5,870        | \$4,538 | \$4,080 |
| Income tax benefits  | \$2,055        | \$1,588 | \$1,428 |

Unrecognized compensation cost related to all the above at February 28, 2017 totaled \$6.8 million. These costs are expected to be recognized over a weighted period of 1.91 years.

The actual tax benefit realized for tax deductions from share-based compensation during each of these fiscal years totaled \$1.5 million, \$1.0 million and \$0.3 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.

## 13. Debt

Following is a summary of debt at February 28, 2017 and February 29, 2016:

| Debt consisted of the following:  | 2017           | 2016      |
|---|----------------|-----------|
|   | (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 | 28,571         | 42,857    |
| Term Note, due in quarterly installments beginning in June 2013 through March 2018              | 49,219         | 58,125    |
| Revolving line of credit with bank  | 69,500         | 101,000   |
| Total debt  | 272,290        | 326,982   |
| Unamortized debt issuance costs for Senior Notes and Term Note                                  | (861)          | (1,361)   |
| Total debt, net   | 271,429        | 325,621   |
| Less amount due within one year   | (16,629)       | (23,192)  |
| Debt due after one year, net  | \$254,800      | \$302,429 |

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.

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

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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 28, 2017, we had \$69.5 million of outstanding debt against the revolving credit facility provided and letters of credit outstanding in the amount of \$23.1 million, which left approximately \$132.4 million of additional credit available under the Credit Agreement.

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

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

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

As of February 28, 2017, the Company was in compliance with all of its debt covenants.

Maturities of debt are as follows:

## Fiscal Year (In thousands)

|            |            |
|------------|------------|
| 2018       | \$ 16,629  |
| 2019       | 130,661    |
| 2020       | —          |
| 2021       | 125,000    |
| 2022       | —          |
| Thereafter | —          |
| Total      | \$ 272,290 |



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## 14. Operating segments

Information regarding operations and assets by segment was as follows:

|   | 2017<br>(Restated)<br>(In thousands) | 2016<br>(Restated) | 2015<br>(Restated) |
|---|--------------------------------------|--------------------|--------------------|
| Net sales:  |                                      |                    |                    |
| Energy  | \$488,002                            | \$487,038          | \$461,344          |
| Galvanizing   | 375,536                              | 402,362            | 358,348            |
|   | \$863,538                            | \$889,400          | \$819,692          |
| Operating income:   |                                      |                    |                    |
| Energy  | \$52,577                             | \$56,478           | \$39,780           |
| Galvanizing   | 79,033                               | 94,766             | 88,562             |
| Corporate   | (32,702 )                            | (30,949 )          | (20,440 )          |
| Total Operating Income  | 98,908                               | 120,295            | 107,902            |
| Interest expense  | 14,732                               | 15,155             | 16,561             |
| Net (gain) loss on sale of property, plant and equipment and insurance proceeds | 76                                   | (327 )             | (2,525 )           |
| Other (income) expense, net   | (1,197 )                             | 3,092              | 2,659              |
| Income before income taxes  | \$85,297                             | \$102,375          | \$91,207           |
| Depreciation and amortization:  |                                      |                    |                    |
| Energy  | \$19,624                             | \$19,131           | \$20,725           |
| Galvanizing   | 28,650                               | 26,863             | 23,964             |
| Corporate   | 2,083                                | 1,423              | 1,400              |
|   | \$50,357                             | \$47,417           | \$46,089           |
| Expenditures for acquisitions, net of cash, and property, plant and equipment:  |                                      |                    |                    |
| Energy  | \$31,474                             | \$12,863           | \$10,647           |
| Galvanizing   | 32,099                               | 86,724             | 26,928             |
| Corporate   | 540                                  | 858                | 3,320              |
|   | \$64,113                             | \$100,445          | \$40,895           |
| Total assets:   |                                      |                    |                    |
| Energy  | \$536,557                            | \$506,269          | \$511,648          |
| Galvanizing   | 428,330                              | 436,471            | 378,823            |
| Corporate   | 13,467                               | 45,461             | 34,844             |
|   | \$978,354                            | \$988,201          | \$925,315          |
| Geographic net sales:   |                                      |                    |                    |
| United States   | \$705,976                            | \$710,767          | \$634,549          |
| Other countries   | 157,718                              | 179,832            | 189,855            |
| Eliminations  | (156 )                               | (1,199 )           | (4,712 )           |
|   | \$863,538                            | \$889,400          | \$819,692          |
| Property, plant and equipment, net:   |                                      |                    |                    |
| United States   | \$205,079                            | \$204,587          | \$173,712          |

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|                 |           |           |           |
|-----------------|-----------|-----------|-----------|
| Canada          | 18,002    | 17,868    | 20,289    |
| Other Countries | 5,529     | 3,878     | 2,582     |
|                 | \$228,610 | \$226,333 | \$196,583 |

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AZZ Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. Commitments and contingencies

## Leases

The Company is obligated under various operating leases for property, plant and equipment. As February 28, 2017, 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)

|            |           |
|------------|-----------|
| 2018       | \$ 6,627  |
| 2019       | 5,629     |
| 2020       | 3,347     |
| 2021       | 2,655     |
| 2022       | 2,542     |
| Thereafter | 8,042     |
| Total      | \$ 28,842 |

Rent expense was \$17.0 million, \$13.9 million and \$14.1 million for fiscal years 2017, 2016 and 2015, 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, copper, zinc, nickel based alloys, except for those entered into under the normal course of business.

## Other

At February 28, 2017, the Company had outstanding letters of credit in the amount of \$23.1 million. These letters of credit are issued for a number of reasons, but are most commonly issued in lieu of customer retention withholding payments covering warranty or performance periods. In addition, as of February 28, 2017, a warranty reserve in the amount of \$2.1 million was established to offset any future warranty claims.

## 16. Selected quarterly financial data (Unaudited)

|                            | Quarter ended                         |                                  |                                    |                                    |
|----------------------------|---------------------------------------|----------------------------------|------------------------------------|------------------------------------|
|                            | May 31,<br>2016<br>(Restated)         | August 31,<br>2016<br>(Restated) | November 30,<br>2016<br>(Restated) | February 28,<br>2017<br>(Restated) |
|                            | (in thousands, except per share data) |                                  |                                    |                                    |
| Net sales                  | \$250,366                             | \$200,790                        | \$228,116                          | \$184,266                          |
| Gross profit               | 65,128                                | 42,104                           | 51,297                             | 46,803                             |
| Net income                 | 22,189                                | 10,159                           | 16,646                             | 12,270                             |
| Basic earnings per share   | 0.86                                  | 0.39                             | 0.64                               | 0.47                               |
| Diluted earnings per share | 0.85                                  | 0.39                             | 0.64                               | 0.47                               |

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AZZ Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                            | Quarter ended                         |            |              |              |
|----------------------------|---------------------------------------|------------|--------------|--------------|
|                            | May 31,                               | August 31, | November 30, | February 29, |
|                            | 2015                                  | 2015       | 2015         | 2016         |
|                            | (Restated)                            | (Restated) | (Restated)   | (Restated)   |
|                            | (in thousands, except per share data) |            |              |              |
| Net sales                  | \$240,440                             | \$199,670  | \$241,596    | \$207,694    |
| Gross profit               | 63,704                                | 49,702     | 61,288       | 53,424       |
| Net income                 | 22,674                                | 14,866     | 22,822       | 15,182       |
| Basic earnings per share   | 0.88                                  | 0.58       | 0.88         | 0.59         |
| Diluted earnings per share | 0.88                                  | 0.57       | 0.88         | 0.58         |

## 17. Acquisitions

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. The goodwill arising from this acquisition was allocated to the Energy Segment and is deductible for income tax purposes.

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

On 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. 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 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. 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 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.

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AZZ Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

18. Subsequent Events

On March 21, 2017, we executed the Amended and Restated Credit Agreement (the "2017 Credit Agreement") with Bank of America and other lenders. The 2017 Credit Agreement amended the Credit Agreement entered into on March 27, 2013 by the following: (i) extending the maturity date until March 21, 2022, (ii) providing for a senior revolving credit facility in a principal amount of up to \$450 million, with an additional \$150 million accordion, (iii) including a \$75 million sublimit for the issuance of standby and commercial letters of credit, (iv) including a \$30 million sublimit for swing line loans, (v) restricting indebtedness incurred in respect of capital leases, synthetic lease obligations and purchase money obligations not to exceed \$20 million, (vi) restricting investments in any foreign subsidiaries not to exceed \$50 million in the aggregate, and (vii) including various financial covenants and certain restricted payments relating to dividends and share repurchases as specifically set forth in the 2017 Credit Agreement. The 2017 Credit Agreement will be used to finance working capital needs, capital improvements, dividends, future acquisitions and letter of credit needs.

Two of the Company's indirectly held subsidiaries, The Calvert Company, Inc. and Nuclear Logistics LLC, have existing contracts with subsidiaries of Westinghouse Electric Company ("WEC"). WEC and the relevant subsidiaries filed relief under Chapter 11 of the Bankruptcy Code on March 29, 2017 in the United States Bankruptcy Court for the Southern District of New York, jointly administered as In re Westinghouse Electric Company, et al., Case No. 17-10751 (the "Bankruptcy Case"). The Bankruptcy Court overseeing the Bankruptcy Case has approved, on an interim basis, an \$800M Debtor-in-Possession Financing Facility ("DIP Financing") to help WEC finance its business operations during the reorganization process. A final hearing on the DIP Financing is scheduled for April 26, 2017. The Company estimates it had approximately \$7.2 million in pre-petition exposure with WEC to the Company's two subsidiaries as of March 29, 2017. The Company's subsidiaries will continue, for the time being and while it monitors and evaluates the Bankruptcy Case, to honor its executory contracts and has applied for critical vendor status with WEC. At this time, the Company cannot accurately estimate what recovery may be had on any pre-petition amounts or the potential future negative effects if the existing nuclear plant construction projects currently in backlog are cancelled. The Company expects to collect all post-petition amounts due and owing. It will likely be several months before WEC determines who to pay as its critical vendors, if anyone, or otherwise makes a determination as to which contracts to assume and which to reject as part of its reorganization process. The Company does not believe that rejection of the outstanding contracts with WEC, taken in part or combined, would have a material adverse impact on the Company's cash flow or operations.

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## Schedule II

AZZ Inc.

## Valuation and Qualifying Accounts and Reserves

(In thousands)

|  | Year Ended,             |                      |                      |
|--|-------------------------|----------------------|----------------------|
|  | February<br>28,<br>2017 | February<br>29, 2016 | February<br>28, 2015 |
| Allowance for Doubtful Accounts                      |                         |                      |                      |
| Balance at beginning of year                         | \$264                   | \$1,472              | \$1,744              |
| Additions (reductions) charged or credited to income | 48                      | (1,072 )             | 458                  |
| (Write offs) recoveries, net                         | 20                      | (176 )               | (700 )               |
| Other  | 11                      | 48                   | —                    |
| Effect of exchange rate                              | 4                       | (8 )                 | (30 )                |
| Balance at end of year                               | \$347                   | \$264                | \$1,472              |

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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

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, due to the material weakness described below, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this Form 10-K/A 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 not effective as of the end of the period covered by this Form 10-K/A 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.

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 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 upon its initial assessment, management concluded that the Company maintained effective internal control over financial reporting as of February 28, 2017.

However, subsequent to filing the Company's quarterly report on Form 10-Q for the period ended August 31, 2017, an error was discovered related to the Company's historical revenue recognition policies and procedures. In particular, the Company determined that for certain contracts within its Energy Segment for which revenue was historically recognized upon contract completion and transfer of title, the Company instead should have applied the percentage-of-completion method in accordance with the FASB's Accounting Standards Codification No. 605-35, Construction-Type and Production-Type Contracts. This error resulted in a material misstatement of the financial statements and required restatement of the financial statements included in the Company's Form 10-K for the fiscal year ended February 28, 2017 and in the Company's Form 10-Q for the quarterly periods ended May 31, 2017 and August 31, 2017. This error, which was not detected timely by management, was the result of inadequate design of controls pertaining to the Company's review and ongoing monitoring of its revenue recognition policies. The deficiency represents a material weakness in the Company's internal control over financial reporting. Based on the subsequent identification of the material weakness, management has now concluded that the Company's internal control over financial reporting was not effective as of February 28, 2017.

Management is actively engaged in the planning for, and implementation of, remediation efforts to address the material weakness identified above. The remediation plan includes i) the implementation of new controls designed to evaluate the appropriateness of revenue recognition policies and procedures, ii) new controls over recording revenue transactions, and iii) additional training.

Management believes the measures described above and others that may be implemented will remediate the material weaknesses that we have identified. As management continues to evaluate and improve internal control over financial reporting, we may decide to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures identified.

Management's assessment and conclusion on the effectiveness of internal control over financial reporting did not include an assessment of the internal controls of Power Electronics, Inc., whose acquisition was completed on March

1, 2016. PEI constituted approximately 1.8% of the Company's total assets as of February 28, 2017 and 4.0% and 8.3% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of PEI 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.

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The Company's independent registered public accounting firm, BDO USA, LLP has issued an audit report on the Company's internal control over financial reporting, which is included herein.

**Changes in Internal Controls Over Financial Reporting**

Subject to the remediation efforts noted above, which were implemented after February 27, 2017, there have been no changes in the Company's internal control over financial reporting during the three months ended February 28, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

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## 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/A 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 2017 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 2017 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 2017 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 2017 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 2017 Annual Meeting of Shareholders.

## Equity Compensation Plan

The following table provides a summary of information as of February 28, 2017, relating to our equity compensation plans in which our Common Stock is authorized for issuance.

## Equity Compensation Plan Information:

|   | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted average exercise price of outstanding options, warrants and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) |
|---|--|--|--|
| Equity compensation plans approved by shareholders <sup>(1)</sup> | 126,975 <sup>(2)</sup>   | \$ 41.27   | 1,270,511 <sup>(3)</sup>   |
| Total   | 126,975  | \$ 41.27   | 1,270,511  |

(1)

Consists of the Amended and Restated 2005 Long-Term Incentive Plan and the 2014 Long-Term Incentive Plan. See Note 12, "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 1,270,511 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  
Long Term Incentive Plans

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The description of the 2005 Long Term Incentive Plan and 2014 Long Term Incentive Plan provided in Note 12 to the consolidated financial statements included in this Annual Report on Form 10-K/A 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 2017 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 2017 Annual Meeting of Shareholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

A. Financial Statements

The financial statements filed as a part of this Annual Report on Form 10-K/A are listed in the “Index to Consolidated Financial Statements” within Part II, Item 8.

2. Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts and Reserves filed as a part of this Annual Report on Form 10-K/A is listed in the “Index to Consolidated Financial Statements” within Part II, Item 8.

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/A is set forth in the Index to Exhibits, which immediately precedes such exhibits.

Item 16. 10-K Summary

None.

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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 19, 2018 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.

April 19, 2018 /s/ Kevern R. Joyce  
Kevern R. Joyce  
Chairman of the Board of Directors

April 19, 2018 /s/ Thomas E. Ferguson  
Thomas E. Ferguson  
President, Chief Executive Officer and Director (Principal Executive Officer)

April 19, 2018 /s/ Paul W. Fehlman  
Paul W. Fehlman,  
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

April 19, 2018 /s/ James Drew Byelick  
James Drew Byelick  
Vice President and Chief Accounting Officer

April 19, 2018 /s/ Daniel R. Feehan  
Daniel R. Feehan  
Director

April 19, 2018 /s/ Daniel E. Berce  
Daniel E. Berce  
Director

April 19, 2018 /s/ Paul Eisman  
Paul Eisman  
Director

April 19, 2018 /s/ Venita McCellon-Allen  
Venita McCellon-Allen  
Director

April 19, 2018 /s/ Ed McGough  
Ed McGough  
Director

April 19, 2018 /s/ Steven R. Purvis  
Steven R. Purvis  
Director

April 19, 2018 /s/ Stephen E. Pirnat  
Stephen E. Pirnat  
Director

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

|        |  |
|--------|--|
| 3.1    | <u>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)</u>   |
| 3.2    | <u>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)</u>   |
| 4.1    | <u>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)</u>  |
| 10.1   | <u>Amended and Restated Credit Agreement, dated March 21, 2017 by and among AZZ Inc. as borrower, Bank of America N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lender's party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 24, 2017)</u> |
| 10.2   | <u>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)</u>   |
| 10.3   | <u>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)</u>  |
| 10.4*  | <u>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)</u>   |
| 10.5*  | <u>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)</u>  |
| 10.6*  | <u>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)</u>  |
| 10.7*  | <u>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)</u>  |
| 10.8*  | <u>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)</u>   |
| 10.9*  | <u>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)</u>  |
| 10.10* | <u>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)</u>  |
| 10.11* | <u>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)</u>  |
| 10.12* | <u>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)</u>   |
| 10.13* | <u>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)</u>   |
| 10.14* | <u>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)</u>  |
| 10.15* | <u>Amended and Restated Employment Agreement between AZZ Inc. and Thomas Ferguson, dated September 29, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 29, 2016)</u>  |

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|         |  |
|---------|--|
| 10.16*  | <u>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)</u>          |
| 10.17*  | <u>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)</u>                  |
| 10.18*  | <u>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)</u>           |
| 10.19*  | <u>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)</u> |
| 10.20*  | <u>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)</u>   |
| 14.1    | Code of Conduct. AZZ Inc. Code of Conduct may be accessed via the Company's Website at <a href="http://www.azz.com">www.azz.com</a> .  |
| 21.1    | <u>Subsidiaries of the Registrant</u> (Filed herewith)   |
| 23.1    | <u>Consent of BDO USA, LLP</u> (Filed herewith)  |
| 31.1    | <u>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-Oxley Act of 2002</u> (Filed herewith)   |
| 31.2    | <u>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-Oxley Act of 2002</u> (Filed herewith)   |
| 32.1    | <u>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</u> (Filed herewith)  |
| 32.2    | <u>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</u> (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