

**AZZ INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deferred federal and state income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income tax liability are as follows as of February 29, 2020 and February 28, 2019 (in thousands):

	<b>2020</b>	<b>2019</b>
Deferred income tax assets:		
Employee related items	\$ 3,194	\$ 4,177
Inventories	823	758
Accrued warranty	548	369
Accounts receivable	1,379	(2,092)
Lease liabilities	10,601	—
Net operating loss carry forward	5,845	7,173
	22,390	10,385
Less: valuation allowance	(725)	(3,015)
Total deferred income tax assets	21,665	7,370
Deferred income tax liabilities:		
Depreciation methods and property basis differences	(21,447)	(19,066)
Right-of-use lease assets	(10,299)	—
Other assets and tax-deductible goodwill	(27,845)	(24,927)
Total deferred income tax liabilities	(59,591)	(43,993)
Net deferred income tax liabilities	\$ (37,926)	\$ (36,623)

The following table summarizes the Net operating loss (NOL) carry-forward balances as of February 29, 2020 and February 28, 2019 (in thousands):

	<b>2020</b>	<b>2019</b>
Federal	\$ —	\$ —
State	\$ 5,120	\$ 6,352
Foreign	\$ 725	\$ 821

As of February 29, 2020, the Company had pretax state NOL carry-forwards of \$113.1 million which, if unused, will begin to expire in 2026.

As of fiscal year end 2020 and 2019, a portion of the Company's deferred tax assets were the result of state and foreign jurisdiction NOL carry-forwards. The Company believes that it is more likely than not that the benefit from certain foreign NOL carry forwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance of \$0.7 million and \$3.0 million as of fiscal year end 2020 and 2019, respectively.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's 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. The Company may (1) record unrecognized tax benefits as liabilities in accordance with GAAP and (2) adjust these liabilities when the Company's 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 the Company's 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