

Rexnord Corp
Form 10-Q
February 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark
one)

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

For the fiscal quarter ended December 31, 2015

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

For the transition period from _____ to _____

Commission File Number: 001-35475

REXNORD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

20-5197013

(State or Other Jurisdiction of Incorporation or
Organization)

(I.R.S. Employer Identification No.)

247 Freshwater Way, Suite 300, Milwaukee, WI

53204

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (414) 643-3739

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at February 1, 2016
Rexnord Corporation Common Stock, \$0.01 par value per share	101,373,147 shares

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Private Securities Litigation Reform Act Safe Harbor Statement

Our disclosure and analysis in this report concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business and the realization of sales from our backlog, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flows, research and development costs, working capital and capital expenditures, they are subject to risks and uncertainties that are described more fully in our Annual Report on Form 10-K for the year ended March 31, 2015 in Part I, Item 1A, “Risk Factors” and in Part I under the heading “Cautionary Notice Regarding Forward-Looking Statements.” Accordingly, we can give no assurance that we will achieve the results anticipated or implied by our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

General

Our fiscal year is the year ending March 31 of the corresponding calendar year. For example, our fiscal year 2016, or fiscal 2016, means the period from April 1, 2015 to March 31, 2016 and the third quarters of fiscal 2016 and 2015 mean the fiscal quarters ended December 31, 2015 and December 31, 2014, respectively.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Rexnord Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(in Millions, except share amounts)
(Unaudited)

	December 31, 2015	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$436.4	\$370.3
Receivables, net	276.2	336.0
Inventories, net	358.2	367.7
Other current assets	51.4	52.3
Total current assets	1,122.2	1,126.3
Property, plant and equipment, net	391.6	417.6
Intangible assets, net	545.9	587.7
Goodwill	1,193.3	1,202.3
Insurance for asbestos claims	35.0	35.0
Other assets	31.6	33.1
Total assets	\$3,319.6	\$3,402.0
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of debt	\$21.0	\$24.3
Trade payables	185.3	234.1
Compensation and benefits	45.1	53.9
Current portion of pension and postretirement benefit obligations	5.0	5.0
Other current liabilities	127.3	127.3
Total current liabilities	383.7	444.6
Long-term debt	1,904.2	1,915.7
Pension and postretirement benefit obligations	193.5	203.0
Deferred income taxes	190.2	184.4
Reserve for asbestos claims	35.0	35.0
Other liabilities	46.7	66.6
Total liabilities	2,753.3	2,849.3
Stockholders' equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 200,000,000 shares authorized; shares issued and outstanding: 100,368,622 at December 31, 2015 and 102,681,964 at March 31, 2015	1.0	1.0
Additional paid-in capital	846.3	885.9
Retained deficit	(129.2)	(197.5)
Accumulated other comprehensive loss	(151.4)	(130.2)
Treasury stock at cost; 0 and 900,904 shares at December 31, 2015 and March 31, 2015, respectively	—	(6.3)

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Total Rexnord stockholders' equity	566.7	552.9	
Non-controlling interest	(0.4) (0.2)
Total stockholders' equity	566.3	552.7	
Total liabilities and stockholders' equity	\$3,319.6	\$3,402.0	

See notes to the condensed consolidated financial statements.

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Rexnord Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(in Millions, except share and per share amounts)
(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net sales	\$460.2	\$497.1	\$1,431.2	\$1,531.7
Cost of sales	301.9	315.6	933.8	975.0
Gross profit	158.3	181.5	497.4	556.7
Selling, general and administrative expenses	89.1	129.9	286.4	337.5
Restructuring and other similar charges	6.1	2.3	10.7	7.1
Amortization of intangible assets	14.6	13.6	43.1	40.8
Income from operations	48.5	35.7	157.2	171.3
Non-operating expense:				
Interest expense, net	(24.5	) (21.9	) (68.0	) (66.4
Other expense, net	(1.1	) (5.4	) (2.5	) (9.0
Income from continuing operations before income taxes	22.9	8.4	86.7	95.9
(Benefit) provision for income taxes	(1.4	) 1.7	18.6	39.8
Net income from continuing operations	24.3	6.7	68.1	56.1
Loss from discontinued operations, net of tax	—	(4.5	) —	(4.8
Net income	24.3	2.2	68.1	51.3
Non-controlling interest loss	(0.1	) —	(0.2	) (0.2
Net income attributable to Rexnord	\$24.4	\$2.2	\$68.3	\$51.5
Net income from continuing operations per share:				
Basic	\$0.24	\$0.07	\$0.68	\$0.55
Diluted	\$0.24	\$0.06	\$0.66	\$0.54
Net loss per share from discontinued operations:				
Basic	\$—	\$(0.04	) \$—	\$(0.05
Diluted	\$—	\$(0.04	) \$—	\$(0.05
Net income per share attributable to Rexnord:				
Basic	\$0.24	\$0.02	\$0.68	\$0.51
Diluted	\$0.24	\$0.02	\$0.66	\$0.49
Weighted-average number of shares outstanding (in thousands):				
Basic	100,366	101,695	100,707	101,461
Effect of dilutive equity awards	2,410	3,090	2,644	3,053
Diluted	102,776	104,785	103,351	104,514

Rexnord Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(in Millions)

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(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net income attributable to Rexnord	\$24.4	\$2.2	\$68.3	\$51.5
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(6.5	) (22.5	) (18.3	) (46.4
Unrealized income (loss) on interest rate derivatives, net of tax	2.2	(3.2	) (2.0	) (5.6
Change in pension and other postretirement defined benefit plans, net of tax	(0.3	) (5.5	) (0.9	) (6.1
Other comprehensive income loss, net of tax	(4.6	) (31.2	) (21.2	) (58.1
Non-controlling interest loss	(0.1	) —	(0.2	) (0.2
Total comprehensive income (loss)	\$19.7	\$ (29.0) \$46.9	\$ (6.8

See notes to the condensed consolidated financial statements.

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Rexnord Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in Millions)
(Unaudited)

	Nine Months Ended	
	December 31, 2015	December 31, 2014
Operating activities		
Net income	\$68.1	\$51.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	43.0	42.7
Amortization of intangible assets	43.1	40.8
Amortization of deferred financing costs	1.6	1.6
Actuarial loss on pension and post retirement benefit obligations	—	31.4
Non-cash asset impairment	2.9	—
(Gain) loss on dispositions of property, plant and equipment	(0.2)	) 6.1
Deferred income taxes	7.1	6.9
Other non-cash charges	5.2	8.3
Stock-based compensation expense	5.8	4.8
Changes in operating assets and liabilities:		
Receivables	38.9	34.0
Inventories	5.2	(25.8)
Other assets	1.3	(6.1)
Accounts payable	(46.9)	) (37.9)
Accruals and other	(24.9)	) 8.9
Cash provided by operating activities	150.2	167.0
Investing activities		
Expenditures for property, plant and equipment	(26.4)	) (32.1)
Acquisitions, net of cash acquired	1.1	(62.0)
Proceeds from dispositions of long-lived assets	4.8	5.7
Cash used for investing activities	(20.5)	) (88.4)
Financing activities		
Repayments of long-term debt	(14.7)	) (14.9)
Proceeds from borrowings of debt	0.9	10.2
Repayments of short-term debt	(4.6)	) (13.6)
Payment of deferred financing fees	(0.9)) —
Proceeds from exercise of stock options	—	1.0
Repurchase of Company common stock	(40.0)) —
Excess tax benefit on exercise of stock options	0.9	5.1
Cash used for financing activities	(58.4)	) (12.2)
Effect of exchange rate changes on cash and cash equivalents	(5.2)	) (10.5)
Increase in cash and cash equivalents	66.1	55.9
Cash and cash equivalents at beginning of period	370.3	339.0
Cash and cash equivalents at end of period	\$436.4	\$394.9

See notes to the condensed consolidated financial statements.

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Rexnord Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
December 31, 2015
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The unaudited condensed consolidated financial statements included herein have been prepared by Rexnord Corporation ("Rexnord" or the "Company"), in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, the condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results of operations for the interim periods. Results for the interim periods are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2016. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's fiscal 2015 Annual Report on Form 10-K.

During fiscal 2015, the Company completed a plan to discontinue the operations and exit its non-core business that manufactured ring gears and pinions ("Mill Products") utilized for crushing machinery applications in the mining sector. Accordingly, the results of operations of the Mill Products business have been reported as discontinued operations in the condensed consolidated statements of operations for all periods presented. The corresponding assets and liabilities of the discontinued operations have been reclassified in accordance with authoritative literature and classified as assets held for sale for all periods presented in the condensed consolidated balance sheets. See Note 3 for further information regarding the discontinued operation.

The Company

Rexnord is a growth-oriented, multi-platform industrial company with what it believes are leading market shares and highly trusted brands that serve a diverse array of global end-markets. The Company's heritage of innovation and specification have allowed it to provide highly engineered, mission critical solutions to customers for decades and affords it the privilege of having long-term, valued relationships with market leaders. The Rexnord Innovation Center provides on-going, cross-platform support of these capabilities. The Company operates in a disciplined way and the Rexnord Business System ("RBS") is the operating philosophy. Grounded in the spirit of continuous improvement, RBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of the business.

The Process & Motion Control platform designs, manufactures, markets and services specified, highly-engineered mechanical components used within complex systems where the customers' reliability requirements and cost of failure or downtime is extremely high. The Process & Motion Control product portfolio includes gears and gear drives, couplings, industrial bearings, tabletop and engineered chain, aerospace bearings and seals, conveying equipment and specialty components, as well as repair and on-going service.

The Water Management platform designs, procures, manufactures and markets products that provide and enhance water quality, safety, flow control and conservation. The Water Management product portfolio includes specification drainage systems, sensor flush valves and faucets, point-source wastewater pretreatment devices, backflow prevention devices, pressure release valves, sluice and slide gates, butterfly and plug valves, control valves and actuation systems

and PEX piping.

Recent Accounting Pronouncements

In November 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). The update changes how deferred taxes are classified on the balance sheet, eliminating the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The Company is currently evaluating the impact of the adoption of this requirement on the condensed consolidated balance sheets.

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In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). This update removes the requirement to restate prior periods to reflect adjustments made to provisional amounts. Rather, adjustments to the provisional amounts are to be recognized in the reporting period in which the adjustments are recognized. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. As permitted by ASU 2015-16, the Company elected to early adopt this guidance beginning in the second quarter of fiscal 2016 with no material impact to the financial statements or related notes.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). The new guidance requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Under current guidance, net realizable value is one of several calculations needed to measure inventory at lower of cost or market and as such, the new guidance reduces the complexity in measurement. This new guidance is effective for the Company's first quarter of fiscal year 2018 and early adoption is permitted. The guidance must be applied prospectively. The Company is currently evaluating the impact of the adoption of this requirement on the condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The amendments in ASU 2015-03 require 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. The recognition and measurement of debt issuance costs is not affected by the amendments in this update. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and is required to be applied retrospectively to all prior periods presented. As permitted by ASU 2015-03, the Company elected to early adopt this guidance beginning with the first quarter of fiscal 2016, which resulted in the reclassification of \$10.5 million of unamortized debt issuance costs from other assets to long-term debt on the condensed consolidated balance sheets as of March 31, 2015. Refer to Note 12 for additional discussion regarding debt instruments and related classification.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") in order to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The guidance specifies revenue should be recognized in the amount that reflects the consideration the company expects to be entitled to in exchange for the transfer of promised goods or services to customers. ASU 2014-09 will be effective for the Company in the first quarter of fiscal 2019 and allows for full retrospective adoption applied to all periods presented or retrospective adoption with the cumulative effect of initially applying this update recognized at the date of initial application. The Company is currently evaluating the method of adoption and the potential impact adoption will have on its condensed consolidated financial statements.

In the first quarter of 2016, the Company adopted FASB ASU No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"), which changes the criteria for reporting discontinued operations. ASU 2014-08 allows only disposals representing a strategic shift in operations to be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. In addition, the new guidance requires expanded disclosures about discontinued operations, as well as pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. As this guidance is a prospective change, the significance of ASU 2014-08 for the Company is dependent on any future dispositions or disposals.

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2. Acquisitions

Fiscal Year 2015 Acquisitions

On January 12, 2015, the Company acquired Euroflex Transmissions (India) Private Limited ("Euroflex") for a preliminary cash purchase price of \$76.0 million, excluding transaction costs and net of cash acquired. During the first quarter of fiscal 2016, the Company received \$1.1 million in cash from the sellers in connection with finalizing the amount of acquisition date working capital. The preliminary purchase price was adjusted to reflect this change, which resulted in a \$1.1 million decrease to goodwill. Euroflex, based in Hyderabad, India, is a supplier of high performance disc couplings used in power generation, gas compression and industrial process machinery applications. The acquisition of Euroflex added complementary product lines to the Company's existing Process & Motion Control platform.

On October 30, 2014, the Company acquired Tollok S.p.A. ("Tollok"), a supplier of highly engineered shaft locking devices for the power generation and process industries, as well as general industrial applications. The preliminary purchase price, excluding transaction costs and net of cash acquired, was \$39.2 million. Under the terms of the agreement, the purchase price is comprised of \$33.4 million that was paid at closing and \$3.4 million payable in annual installments on October 30, 2015 and October 30, 2016. During the first quarter of fiscal 2016, the Company finalized the amount of acquisition date working capital which resulted in a \$1.7 million decrease to the preliminary purchase price, which the Company realized by reducing the amount of the first annual installment payment by \$1.7 million. The preliminary purchase price allocation has been adjusted to reflect this change, which also resulted in a \$1.7 million decrease to goodwill. Pursuant to the terms of the agreement, the Company is also contingently obligated to make potential additional consideration payments, not to exceed \$3.8 million, in two years to the sellers should Tollok's financial performance exceed certain thresholds during the two years following the acquisition. Cash payments made after the acquisition date are settled in Euros based on prevailing exchange rates at the time of payment. Tollok, based in Ferrara, Italy, added complementary product lines to the Company's existing Process & Motion Control platform.

On April 15, 2014, the Company acquired Green Turtle Technologies Ltd., Green Turtle Americas Ltd. and Filamat Composites Inc. (collectively "Green Turtle") for a total cash purchase price of \$27.7 million, excluding transaction costs and net of cash acquired. Green Turtle, based in Toronto, Ontario, and Charlotte, North Carolina, is a manufacturer of branded fiberglass oil and grease separators and traps. This acquisition broadened the product portfolio of the Company's existing Water Management platform.

The Company's results of operations include the acquired operations subsequent to the respective acquisition dates. The acquisitions of Green Turtle, Tollok and Euroflex were not material to the Company's condensed consolidated financial statements. Pro-forma results of operations and certain other U.S. GAAP disclosures related to the acquisitions during the fiscal year ended March 31, 2015 have not been presented because they are not significant to the Company's condensed consolidated statements of operations and financial position.

The fiscal 2015 acquisitions were accounted for as business combinations and recorded by allocating the purchase price of the acquisitions to the fair value of the assets acquired and liabilities assumed at the respective acquisition date. The excess of the acquisition purchase price over the fair value assigned to the assets acquired and liabilities assumed was recorded as goodwill. During the nine months ended December 31, 2015, the Company adjusted the preliminary purchase price allocation by reducing goodwill by \$4.9 million in connection with the aforementioned finalization of acquisition date working capital, refinement of the fair value assigned to acquired intangible assets and establishment of income tax positions within the opening balance sheet. After incorporating the changes described above, the preliminary purchase price allocation resulted in non-tax deductible goodwill of \$69.8 million, other intangible assets of \$71.5 million and other net assets of \$1.6 million. The purchase price allocation of Euroflex is

preliminary and subject to final valuation related adjustments that will be completed within the one year period following the respective acquisition date.

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3. Discontinued Operations

During the fourth quarter of fiscal 2015, the Company ceased all operations related to its former Mill Products business, which conducted its operations in the United States and Australia and was a component of the Process & Motion Control segment. As a result, the Company met the criteria to present this business as a discontinued operation in accordance with the authoritative guidance. During the third quarter of fiscal 2015, the Company recorded a net impairment loss of \$5.3 million to place the related long-lived assets at net realizable value and record other exit related costs. Further, the Company received cash proceeds of \$5.3 million representing the disposition of certain Mill Products US based assets.

The condensed consolidated statements of operations for the three and nine months ended December 31, 2015 does not include any activity, including the transactions noted above, for Mill Products as the operations were ceased. The following table summarizes the results of the Mill Products business for the three and nine months ended December 31, 2014 included within loss from discontinued operations, net of tax on the condensed consolidated statements of operations (in millions):

	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2014	
Net sales	\$10.0	\$23.1	
Loss from operations before income taxes	(7.2	) (7.6)
Benefit for income taxes	(2.7	) (2.8)
Net loss from discontinued operations	\$(4.5	) \$(4.8)
Net loss per share from discontinued operations:			
Basic	\$(0.04	) \$(0.05)
Diluted	\$(0.04	) \$(0.05)

Other current assets on the condensed consolidated balance sheets as of December 31, 2015 and March 31, 2015 includes long-lived assets of the Mill Products business held for sale of \$1.2 million and \$2.6 million, respectively. The long-lived assets were recorded at the estimated fair value. See Note 14 for additional detail on fair value measurements used by the Company to estimate fair value. The Company is actively engaged in the sale of remaining assets; however, given the nature of the assets involved, the expected timing of cash flows related to the sale is indeterminable. The Company has no continuing involvement in the Mill Products business.

See Note 4 to the audited consolidated financial statements of the Company's fiscal 2015 Annual Report on Form 10-K for further information regarding discontinued operations.

4. Restructuring and Other Similar Charges

During the third quarter and nine months ended December 31, 2015, the Company continued to execute various restructuring actions. These initiatives were implemented to drive efficiencies and reduce operating costs while also modifying the Company's footprint to reflect changes in the markets it serves, the impact of acquisitions on the Company's overall manufacturing capacity and the refinement of its overall product portfolio. These restructuring actions primarily resulted in workforce reductions, lease termination costs, and other facility rationalization costs. Management expects to continue executing initiatives to optimize its operating margin and manufacturing footprint as well as select product-line rationalizations. As such, the Company expects further expenses related to workforce reductions, potential impairment of assets, lease termination costs, and other facility rationalization costs. The Company's restructuring plans are preliminary and related expenses are not yet estimable.

The following table summarizes the Company's restructuring and other similar charges during the three and nine months ended December 31, 2015 and December 31, 2014 by classification of operating segment (in millions):

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	Restructuring and Other Similar Charges Three Months Ended December 31, 2015			
	Process & Motion Control	Water Management	Corporate	Consolidated
Severance costs	\$1.3	\$1.3	\$0.3	\$2.9
Fixed asset impairment charge (1)	—	2.9	—	2.9
Lease termination and other costs	—	0.3	—	0.3
Total restructuring and other similar costs	\$1.3	\$4.5	\$0.3	\$6.1

	Restructuring and Other Similar Charges Nine Months Ended December 31, 2015			
	Process & Motion Control	Water Management	Corporate	Consolidated
Severance costs	\$4.1	\$2.3	\$0.3	\$6.7
Fixed asset impairment charge (1)	—	2.9	—	2.9
Lease termination and other costs	0.4	0.7	—	1.1
Total restructuring and other similar costs	\$4.5	\$5.9	\$0.3	\$10.7

	Restructuring and Other Similar Charges Three Months Ended December 31, 2014			
	Process & Motion Control	Water Management	Corporate	Consolidated
Severance costs	\$0.5	\$1.6	\$—	\$2.1
Lease termination and other costs	0.2	—	—	0.2
Total restructuring and other similar costs	\$0.7	\$1.6	\$—	\$2.3

	Restructuring and Other Similar Charges Nine Months Ended December 31, 2014			
	Process & Motion Control	Water Management	Corporate	Consolidated
Severance costs	\$2.6	\$2.9	\$—	\$5.5
Lease termination and other costs	0.8	0.8	—	1.6
Total restructuring and other similar costs	\$3.4	\$3.7	\$—	\$7.1

The following table summarizes the activity in the Company's restructuring accrual for the nine months ended December 31, 2015 (in millions):

	Severance Costs	Fixed asset impairment charge (1)	Lease Termination and Other Costs	Total
Restructuring accrual, March 31, 2015 (2)	\$6.7	\$—	\$0.3	\$7.0
Charges	6.7	2.9	1.1	10.7
Cash payments	(9.1)	—	(1.0)	(10.1)
Non-cash charges	—	(2.9)	—	(2.9)
Restructuring accrual, December 31, 2015 (2)	\$4.3	\$—	\$0.4	\$4.7

(1) During the third quarter of fiscal 2016, the Company committed to a plan to consolidate two North American water infrastructure facilities. As a result of this action, the Company recorded an impairment loss of \$2.9 million to place certain long-lived assets at net realizable value. Refer to Note 14 Fair Value Measurements for more information.

(2) The restructuring accrual is included in other current liabilities in the condensed consolidated balance sheets.

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5. Income Taxes

The provision for income taxes for all periods presented is based on an estimated effective income tax rate for the respective full fiscal years. The estimated annual effective income tax rate is determined excluding the effect of significant discrete items or items that are reported net of their related tax effects. The tax effect of significant discrete items is reflected in the period in which they occur. The Company's income tax expense is impacted by a number of factors, including the amount of taxable earnings derived in foreign jurisdictions with tax rates that are generally lower than the U.S. federal statutory rate, state tax rates in the jurisdictions where the Company does business and the Company's ability to utilize various tax credits and net operating loss ("NOL") carryforwards.

The Company regularly reviews its deferred tax assets for recoverability and establishes valuation allowances based on historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences, as deemed appropriate. In addition, all other available positive and negative evidence is taken into consideration for purposes of determining the proper balances of such valuation allowances. As a result of this review, the Company continues to maintain valuation allowances against the deferred tax assets relating to certain foreign and state net operating loss carryforwards. Future changes to the balances of these valuation allowances, as a result of this continued review and analysis by the Company, could result in a material impact to the financial statements for such period of change.

The income tax benefit was \$1.4 million in the third quarter of fiscal 2016 compared to an income tax provision of \$1.7 million in the third quarter of fiscal 2015. The effective income tax rate for the third quarter of fiscal 2016 was (6.1)% versus 20.2% in the third quarter of fiscal 2015. The income tax benefit recorded on income from continuing operations before income taxes for the third quarter of fiscal 2016 was primarily due to the recognition of certain, previously unrecognized tax benefits due to the lapse of the applicable statutes of limitations, as well as the accrual of Domestic Production Activities Deduction (DPAD) and the recognition of certain foreign branch-related losses for U.S. income tax purposes. The effective income tax rate for the third quarter of fiscal 2015 was below the U.S. federal statutory rate of 35% primarily due to the recognition of certain foreign branch-related losses for U.S. income tax purposes as well as the recognition of certain, previously unrecognized tax benefits due to the lapse of the applicable statutes of limitations, in conjunction with the relatively low amount of income from continuing operations before income taxes.

The income tax provision recorded in the first nine months of fiscal 2016 was \$18.6 million compared to an income tax provision of \$39.8 million in the first nine months of fiscal 2015. The effective income tax rate for the first nine months of fiscal 2016 was 21.5% versus 41.5% in the first nine months of fiscal 2015. The effective income tax rate for the first nine months of fiscal 2016 was below the U.S. federal statutory rate of 35% primarily due to the accrual of DPAD, the recognition of certain foreign branch-related losses for U.S. income tax purposes and the recognition of certain, previously unrecognized tax benefits due to the lapse of the applicable statutes of limitations. The effective income tax rate for the first nine months of fiscal 2015 was above the U.S. federal statutory rate of 35% primarily due to certain one-time costs associated with a change to the U.S. income tax entity classification of a foreign subsidiary, partially offset by the recognition of certain foreign branch-related losses for U.S. income tax purposes, as well as the recognition of certain, previously unrecognized tax benefits due to the lapse of the applicable statutes of limitations.

At December 31, 2015, the Company had a \$16.0 million liability for unrecognized net income tax benefits. At March 31, 2015, the Company's total liability for unrecognized net income tax benefits was \$26.6 million. The decrease in the liability for unrecognized net income tax benefits (and the resulting recognition of such benefits) is primarily due to the lapse of the applicable statutes of limitations. The Company recognizes accrued interest and penalties related to unrecognized income tax benefits in income tax expense. As of December 31, 2015 and March 31, 2015, the total amount of gross, unrecognized income tax benefits included \$4.0 million and \$12.4 million of accrued interest and penalties, respectively. As a result of the lapse of certain statutes of limitations, the Company recognized

\$5.0 million of net interest and penalties as income tax benefit during the nine months ended December 31, 2015. The Company recognized \$0.1 million of net interest and penalties as income tax expense during the nine months ended December 31, 2014.

The Company conducts business in multiple locations within and outside the U.S. Consequently, the Company is subject to periodic income tax examinations by domestic and foreign income tax authorities. Currently, the Company is undergoing routine, periodic income tax examinations in both domestic and foreign jurisdictions (including a review of a few specific items on certain of the Company's Netherlands companies corporate income tax returns for the tax years ended March 31, 2011 and 2012). During the second quarter of fiscal 2016, the U.S. Internal Revenue Service completed an income tax examination of the Company's U.S. Consolidated federal income tax return for the tax year ended March 31, 2013. The conclusion of the audit resulted in no changes to previously reported taxable income or income tax for such return. It appears reasonably possible that the amounts of unrecognized income tax benefits could change in the next twelve months as a result of such examinations; however, any potential payments of income tax, interest and penalties are not expected to be significant to the Company's consolidated financial statements. With

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certain exceptions, the Company is no longer subject to U.S. federal income tax examinations for tax years ending prior to March 31, 2013, state and local income tax examinations for years ending prior to fiscal 2012 or significant foreign income tax examinations for years ending prior to fiscal 2011. With respect to the Company's U.S. federal NOL carryforward (which was fully utilized by the tax year ended March 31, 2015), the short tax period from July 21, 2006 to March 31, 2007 (due to the change in control when Apollo Management, L.P. acquired the Company) and the tax years ended March 31, 2008, 2009, 2010, 2011 and 2012 are open under statutes of limitations; whereby, the Internal Revenue Service may not adjust the income tax liability for these years, but may reduce the NOL carryforward and any other tax attribute carryforwards to future open tax years.

6. Earnings per Share

Basic net income per share is computed by dividing net income by the corresponding weighted average number of common shares outstanding for the period. Diluted net income per share is computed based on the weighted average number of common shares outstanding increased by the number of incremental shares that would have been outstanding if the potential dilutive shares were issued through the exercise of outstanding equity awards to purchase common shares, except when the effect would be anti-dilutive. The computation for diluted net income per share for the three and nine months ended December 31, 2015 excludes equity awards to acquire 3,594,845 and 2,993,675 shares, respectively, due to their anti-dilutive effect. The computation for diluted net income per share for the three and nine months ended December 31, 2014 excludes options to purchase 1,164,710 and 1,175,116 shares, respectively, due to their anti-dilutive effect.

7. Stockholders' Equity

Stockholders' equity consists of the following (in millions):

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Treasury Stock (1)	Non-controlling Interest (2)	Total Stockholders' Equity
Balance at March 31, 2015	\$—	\$ 1.0	\$885.9	\$(197.5)	\$(130.2)	\$(6.3)	\$(0.2)	\$ 552.7
Total comprehensive income (loss)	—	—	—	68.3	(21.2)	—	(0.2)	46.9
Stock-based compensation expense	—	—	5.8	—	—	—	—	5.8
Common stock repurchased and canceled	—	—	(40.0)	—	—	—	—	(40.0)
Cancellation of treasury stock	—	—	(6.3)	—	—	6.3	—	—
Tax benefit on stock option exercises	—	—	0.9	—	—	—	—	0.9
Balance at December 31, 2015	\$—	\$ 1.0	\$846.3	\$(129.2)	\$(151.4)	\$—	\$(0.4)	\$ 566.3

(1) During the first quarter of fiscal 2016, the Company canceled all outstanding shares held in treasury stock and returned such shares to the status of authorized but unissued shares.

(2) Represents a 49% non-controlling interest in a Water Management joint venture.

Stock Repurchase Program

In February 2015, the Company's Board of Directors approved a stock repurchase program (the "Repurchase Program") authorizing the repurchase of up to \$200.0 million of the Company's common stock from time-to-time on the open market or in privately negotiated transactions. The Repurchase Program does not require the Company to acquire any particular amount of common stock and does not specify the timing of purchases or the prices to be paid. The Company did not repurchase any shares during the three months ended December 31, 2015. During the nine months ended December 31, 2015, the Company repurchased 1,552,500 shares of common stock at a total cost of \$40.0 million. The shares repurchased were canceled by the Company upon receipt. At December 31, 2015, approximately \$160.0 million of repurchase authority remained.

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8. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss, net of tax, for the nine months ended December 31, 2015 are as follows (in millions):

	Interest Rate Derivatives	Foreign Currency Translation	Pension and Postretirement Plans	Total
Balance at March 31, 2015				