Rexnord Corp
Form 10-Q
February 01, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(Mark
one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal quarter ended December 31, 2016
o 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 x No o

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 x No o

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 x Accelerated filer o

Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

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 January 27, 2017
Rexnord Corporation Common Stock, $0.01 par value per share	103,426,972 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” a 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, 2016 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 2017, or fiscal 2017, means the period from April 1, 2016 to March 31, 2017, and the third quarter of fiscal 2017 and 2016 mean the fiscal quarters ended December 31, 2016 and December 31, 2015, 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, 2016	March 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 429.3	$ 484.6
Receivables, net	279.9	317.6
Inventories, net	339.1	327.2
Income tax receivable	19.8	1.8
Other current assets	37.4	44.9
Total current assets	1,105.5	1,176.1
Property, plant and equipment, net	408.1	397.2
Intangible assets, net	562.9	520.9
Goodwill	1,313.0	1,193.8
Insurance for asbestos claims	32.0	32.0
Other assets	39.5	34.8
Total assets	$ 3,461.0	$ 3,354.8
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of debt	$ 16.8	$ 20.2
Trade payables	180.3	200.8
Compensation and benefits	45.9	54.0
Current portion of pension and postretirement benefit obligations	4.9	5.0
Other current liabilities	118.8	124.4
Total current liabilities	366.7	404.4
Long-term debt	1,610.1	1,899.9
Pension and postretirement benefit obligations	190.3	195.5
Deferred income taxes	203.3	186.0
Reserve for asbestos claims	32.0	32.0
Other liabilities	45.3	49.0
Total liabilities	2,447.7	2,766.8
Stockholders' equity:		
Common stock, $0.01 par value; 200,000,000 shares authorized; shares issued and outstanding: 103,415,393 at December 31, 2016 and 101,435,762 at March 31, 2016	1.0	1.0
Preferred stock, $0.01 par value; 10,000,000 shares authorized; shares of 5.75% Series A Mandatory Convertible Preferred Stock issued and outstanding: 402,500 at December 31, 2016 and 0 at March 31, 2016	0.0	—
Additional paid-in capital	1,262.9	856.2
Retained deficit	(82.9)	(129.6)
Accumulated other comprehensive loss	(167.7)	(139.0)

Total Rexnord stockholders' equity	1,013.3	588.6
Non-controlling interest	—	(0.6)
Total stockholders' equity	1,013.3	588.0
Total liabilities and stockholders' equity	$ 3,461.0	$3,354.8

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, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net sales	$451.8	$ 460.2	$1,414.6	$ 1,431.2
Cost of sales	298.8	301.9	922.2	933.8
Gross profit	153.0	158.3	492.4	497.4
Selling, general and administrative expenses	99.9	89.1	313.1	286.4
Restructuring and other similar charges	11.7	6.1	21.7	10.7
Amortization of intangible assets	8.6	14.6	33.7	43.1
Income from operations	32.8	48.5	123.9	157.2
Non-operating expense:				
Interest expense, net	(22.9)	(24.5)	(69.4)	(68.0)
Loss on the extinguishment of debt	(7.8)	—	(7.8)	—
Other expense, net	(0.7)	(1.1)	(3.3)	(2.5)
Income before income taxes	1.4	22.9	43.4	86.7
(Benefit) provision for income taxes	(1.8)	(1.4)	(3.3)	18.6
Net income	3.2	24.3	46.7	68.1
Non-controlling interest loss	—	(0.1)	—	(0.2)
Net income attributable to Rexnord	$3.2	$ 24.4	$46.7	$ 68.3
Dividends on preferred stock	(1.5)	—	(1.5)	—
Net income attributable to Rexnord common shareholders	$1.7	$ 24.4	$45.2	$ 68.3
Net income per share attributable to Rexnord common shareholders:				
Basic	$0.02	$ 0.24	$0.44	$ 0.68
Diluted	$0.02	$ 0.24	$0.43	$ 0.66
Weighted-average number of shares outstanding (in thousands):				
Basic	103,113	100,366	102,514	100,707
Effect of dilutive equity awards	1,445	2,410	1,967	2,644
Diluted	104,558	102,776	104,481	103,351

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

	Third Quarter Ended		Nine Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net income attributable to Rexnord	$3.2	$ 24.4	$46.7	$ 68.3
Other comprehensive loss:				
Foreign currency translation adjustments	(33.5)	(6.5)	(33.4)	(18.3)
Unrealized income (loss) on interest rate derivatives, net of tax	3.3	2.2	5.6	(2.0)
Change in pension and other postretirement defined benefit plans, net of tax	(0.3)	(0.3)	(0.9)	(0.9)
Other comprehensive loss, net of tax	(30.5)	(4.6)	(28.7)	(21.2)
Non-controlling interest loss	—	(0.1)	—	(0.2)

Total comprehensive (loss) income	$(27.3)	$ 19.7	$18.0	$ 46.9

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, 2016	December 31, 2015
Operating activities		
Net income	$46.7	$ 68.1
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	45.4	43.0
Amortization of intangible assets	33.7	43.1
Amortization of deferred financing costs	1.9	1.6
Loss on the extinguishment of debt	7.8	—
Non-cash asset impairment	1.6	2.9
Loss (gain) on dispositions of long-lived assets	0.2	(0.2)
Deferred income taxes	(15.9)	7.1
Other non-cash charges	(3.3)	5.2
Stock-based compensation expense	9.8	5.8
Changes in operating assets and liabilities:		
Receivables	33.1	38.9
Inventories	(5.1)	5.2
Other assets	(7.2)	1.3
Accounts payable	(21.4)	(46.9)
Accruals and other	(5.2)	(24.9)
Cash provided by operating activities	122.1	150.2
Investing activities		
Expenditures for property, plant and equipment	(44.0)	(26.4)
Acquisitions, net of cash acquired	(213.7)	1.1
Proceeds from dispositions of long-lived assets	1.9	4.8
Cash used for investing activities	(255.8)	(20.5)
Financing activities		
Proceeds from borrowings of long-term debt	1,590.3	—
Repayments of long-term debt	(1,881.8)	(14.7)
Proceeds from borrowings of short-term debt	16.1	0.9
Repayments of short-term debt	(19.5)	(4.6)
Payment of debt issuance costs	(10.6)	(0.9)
Proceeds from exercise of stock options	9.6	—
Deferred acquisition payment	(5.7)	—
Proceeds from issuance of preferred stock, net of direct offering costs	390.2	—
Repurchase of Company common stock	—	(40.0)
Excess tax benefit on exercise of stock options	—	0.9
Cash provided by (used for) financing activities	88.6	(58.4)
Effect of exchange rate changes on cash and cash equivalents	(10.2)	(5.2)
(Decrease) increase in cash and cash equivalents	(55.3)	66.1
Cash and cash equivalents at beginning of period	484.6	370.3
Cash and cash equivalents at end of period	$429.3	$ 436.4

See notes to the condensed consolidated financial statements.

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Rexnord Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
December 31, 2016
(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, 2017. 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 2016 Annual Report on Form 10-K.

The Company

Rexnord is a growth-oriented, multi-platform industrial company with what it believes to be 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 the privilege of having long-term, valued relationships with market leaders. The Company operates in a disciplined way and its 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 its business.

The Process & Motion Control platform designs, manufactures, markets and services a comprehensive range of specified, highly-engineered mechanical components used within complex systems where our customers' reliability requirements and costs of failure or downtime are high. The Process & Motion Control portfolio includes motion control products, shaft management products, aerospace components, and related value-added services.

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 professional grade water control and safety, water distribution and drainage, finish plumbing, and site works products for primarily nonresidential buildings and flow control products for water and wastewater treatment infrastructure markets.

Recent Accounting Pronouncements

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 ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company elected to early adopt this standard in the first quarter of fiscal 2017. The impact of the adoption of this standard resulted in the following:

- The Company recorded a benefit of $2.7 million and $7.4 million within income tax expense for the three and nine months ended December 31, 2016, respectively, related to the net excess tax benefit on stock options, restricted stock units and performance stock units. Prior to adoption, these amounts would have been recorded as a reduction of additional paid-in capital. This change may create volatility in the Company's effective tax rate.
- The Company no longer reclassifies the excess tax benefit from operating activities to financing activities in the condensed consolidated statements of cash flows. The Company elected to apply this change prospectively and thus prior periods have not been adjusted.
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The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of its diluted earnings per share for the three and nine months ended December 31, 2016. This increased the diluted weighted average common shares outstanding by approximately 0.2 million and 0.4 million shares, respectively.

In February 2015, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to recognize lease assets and lease liabilities for all leases on the balance sheets. ASU 2016-02 is effective beginning for the Company's

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fiscal 2020 and interim periods included therein on a modified retrospective basis. The Company is currently evaluating the impact this guidance will have on its financial statements upon adoption.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 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 existing 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. ASU 2015-11 is effective for the Company's first quarter of fiscal 2018, with early adoption permitted, and must be applied prospectively. The Company is currently evaluating the impact of the adoption of this requirement on the condensed consolidated financial statements.

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.

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2. Acquisitions

On June 1, 2016, the Company acquired Cambridge International Holdings Corp. ("Cambridge") for a cash purchase price of $213.4 million. The purchase price consisted of an enterprise value of $210.0 million, excluding transaction costs and net of cash acquired, plus additional consideration of $3.4 million related to the acquisition of certain tax benefits and real property classified as held for sale at the acquisition date. During the second quarter of fiscal 2017, the Company received a cash payment of $0.7 million from the sellers in connection with finalizing the acquisition date trade working capital, which is reflected in the additional consideration above. Cambridge, with operations in Cambridge, Maryland and Matamoros, Mexico, is one of the world's largest suppliers of metal conveying and engineered woven metal solutions, primarily used in food processing end markets, as well as in architectural, packaging and filtration applications. The acquisition of Cambridge expanded the Company's presence in consumer-driven end markets in the Process & Motion Control platform.

The Company's results of operations include the acquired operations subsequent to June 1, 2016. Pro-forma results of operations and certain other U.S. GAAP disclosures related to the acquisition have not been presented because they are not material to the Company's condensed consolidated statements of operations and financial position.

The acquisition of Cambridge was accounted for as a business combination and recorded by allocating the purchase price to the fair value of assets acquired and liabilities assumed at the 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. Since the initial acquisition, the Company adjusted the purchase price allocation by increasing goodwill by $2.3 million in connection with the establishment of income tax positions and the refinement of the fair value assigned to acquired fixed and intangible assets within the opening balance sheet, partially offset by the working capital true-up. After incorporating the changes described above, the purchase price allocation resulted in non-tax deductible goodwill of $128.6 million, other intangible assets of $80.7 million and other net assets of $4.1 million. The purchase price allocation remains preliminary and subject to final valuation adjustments that will be completed within the one year period following the acquisition date.

During the third quarter of fiscal 2017, the Company settled the $5.4 million deferred acquisition payment associated with the fiscal 2015 acquisition of Tollok S.p.A.

During the first quarter of fiscal 2017, the Company acquired the remaining non-controlling interest in a Water Management joint venture for a cash purchase price of approximately $0.3 million, net of cash acquired and excluding transaction costs. The acquisition of the remaining minority interest was not material to the Company's condensed consolidated statements of operations or financial position.

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3. Restructuring and Other Similar Charges

During fiscal 2017, 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 or accelerated depreciation 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, 2016 and December 31, 2015 by classification of operating segment (in millions):

	Restructuring and Other Similar Charges Three Months Ended December 31, 2016			
	Process & Motion Control	Water Management	Corporate	Consolidated
Employee termination benefits	$5.1	$ 1.7	$ —	$ 6.8
Asset impairment charges (1)	1.6	—	—	1.6
Contract termination and other associated costs	1.9	1.4	—	3.3
Total restructuring and other similar costs	$8.6	$ 3.1	$ —	$ 11.7

	Restructuring and Other Similar Charges Nine Months Ended December 31, 2016			
	Process & Motion Control	Water Management	Corporate	Consolidated
Employee termination benefits	$9.6	$ 5.4	$ —	$ 15.0
Asset impairment charges (1)	1.6	—	—	1.6
Contract termination and other associated costs (2)	3.4	1.7	—	5.1
Total restructuring and other similar costs	$14.6	$ 7.1	$ —	$ 21.7

	Restructuring and Other Similar Charges Three Months Ended December 31, 2015			
	Process & Motion Control	Water Management	Corporate	Consolidated
Employee termination benefits	$1.3	$ 1.3	$ 0.3	$ 2.9
Asset impairment charges (1)	—	2.9	—	2.9
Contract termination and other associated 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
Employee termination benefits	$4.1	$ 2.3	$ 0.3	$ 6.7

Asset impairment charges (1)	—	2.9	—	2.9
Contract termination and other associated costs	0.4	0.7	—	1.1
Total restructuring and other similar costs	$4.5	$ 5.9	$ 0.3	$ 10.7

(1) In connection with the ongoing supply chain optimization and footprint repositioning initiatives, the Company has taken several actions to consolidate existing manufacturing facilities and rationalize its product offerings. These actions require the Company to assess whether the carrying amount of impacted long-lived assets will be recoverable as well as whether the remaining useful lives require adjustment. The Company recognized impairment charges associated with these assets during the three and nine months ended of fiscal 2017 and 2016, in the amount of $1.6 million and $2.9 million, respectively. The impairment was determined utilizing independent appraisals of the assets, classified as Level 3 inputs within the Fair Value hierarchy. Refer to Note 13, Fair Value Measurements for additional information. In addition to the impairment charges recognized above, the Company recognized accelerated depreciation of $3.8 million and $5.2 million during the

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three and nine months ended December 31, 2016, respectively. The Company recognized accelerated depreciation of $1.1 million and $1.5 million during the three and nine months ended December 31, 2015, respectively. Accelerated depreciation is recorded within Cost of sales in the condensed consolidated statements of operations.

(2) During the second quarter of fiscal 2017, the Company received a $1.0 million cash payment in connection with the sale of certain Rodney Hunt® Fontaine® ("RHF") related intellectual property, which was fully impaired during fiscal 2016 when the Company announced its decision to exit the RHF product line. A gain on the disposition of this intellectual property of $1.0 million was recognized during the nine months ended December 31, 2016 within the Water Management operating segment.

During fiscal 2016, the Company decided to exit product lines sold under the RHF tradename. The Company evaluated the requirements for held for sale and discontinued operations presentation in connection with the decision to exit its flow-control gate product line and determined the product line did not meet the definition provided within the authoritative literature of held for sale or discontinued operations. Pre-tax loss from operations associated with this non-strategic RHF product line were as follows in the three and nine months ended December 31, 2016 and December 31, 2015 (in millions):

Pre-tax Loss		
Three Months Ended		
December 31, 2016	December 31, 2015	Description
$(6.5)	$(10.1)	Includes restructuring and other similar charges of $1.3 million and $3.9 million for the three months ended December 31, 2016 and December 31, 2015, respectively
Nine Months Ended		
December 31, 2016	December 31, 2015	
$(13.2)	$(17.7)	Includes restructuring and other similar charges of $3.2 million and $4.5 million for the nine months ended December 31, 2016 and December 31, 2015, respectively

The following table summarizes the activity in the Company's restructuring accrual for the nine months ended December 31, 2016 (in millions):

	Employee termination benefits	Asset impairment charge	Contract termination and other associated costs	Total
Restructuring accrual, March 31, 2016 (1)	$ 10.5	$ —	$ 0.3	$10.8
Charges	15.0	1.6	5.1	21.7
Cash payments (2)	(15.0)	—	(4.3)	(19.3)
Non-cash charges (3)	(2.2)	(1.6)	—	(3.8)
Restructuring accrual, December 31, 2016 (1)	$ 8.3	$ —	$ 1.1	$9.4

(1) The restructuring accrual is included in other current liabilities in the condensed consolidated balance sheets.
(2) Includes the $1.0 million cash payment received in conjunction with the aforementioned disposition of RHF-related intellectual property.
(3) Included in Employee termination benefits for the nine months ended December 31, 2016 is $2.2 million of contractual termination benefits recognized in fiscal 2017 for enhanced benefits to be provided to certain employees included in the ongoing supply chain optimization and footprint repositioning initiatives. Those amounts are recorded in the Pension and post-retirement benefit obligations within the condensed consolidated

balance sheets and are therefore excluded from the restructuring accrual.

4. Income Taxes

The (benefit) 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

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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 $1.8 million in the third quarter of fiscal 2017 compared to an income tax benefit of $1.4 million in the third quarter of fiscal 2016. The effective income tax rate for the third quarter of fiscal 2017 was (128.6)% versus (6.1)% in the third quarter of fiscal 2016. The income tax benefit recorded on income before income taxes for the third quarter of fiscal 2017 was primarily due to excess tax benefits associated with share-based payments (in conjunction with the early adoption of ASU 2016-09, see Note 1, Recent Accounting Pronouncements), the recognition of net tax benefits associated with U.S. research and development credits and the Domestic Production Activities Deduction (DPAD), partially offset with the recognition of income tax expense relating to various foreign income tax audits. The income tax benefit recorded on income 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 income tax benefit recorded in the first nine months of fiscal 2017 was $3.3 million compared to an income tax provision of $18.6 million in the first nine months of fiscal 2016. The effective income tax rate for the first nine months of fiscal 2017 was (7.6)% versus 21.5% in the first nine months of fiscal 2016. The income tax benefit recorded on income before income taxes for the first nine months of fiscal 2017 was primarily due to excess tax benefits associated with share-based payments (in conjunction with the early adoption of ASU 2016-09, see Note 1,Recent Accounting Pronouncements), the recognition of net tax benefits associated with U.S. research and development credits, the recognition of a worthless stock and bad debt deduction for U.S. income tax purposes relating to an insolvent foreign subsidiary and the recognition of excess U.S. foreign tax credits, partially offset with the recognition of income tax expense relating to various foreign income tax audits. 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 Domestic Production Activities Deduction (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.

At December 31, 2016, the Company had an $18.1 million liability for unrecognized net income tax benefits. At March 31, 2016, the Company's total liability for unrecognized net income tax benefits was $15.6 million. The Company recognizes accrued interest and penalties related to unrecognized income tax benefits in income tax expense. As of December 31, 2016 and March 31, 2016, the total amount of gross, unrecognized income tax benefits included $4.5 million and $3.8 million of accrued interest and penalties, respectively. The Company recognized $0.3 million of net interest and penalties as income tax expense during the nine months ended December 31, 2016. 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 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 specific items on certain corporate income tax returns of the Company's Netherlands subsidiaries' for the tax years ended March 31, 2011 through 2013). In addition, a number of the Company's German subsidiaries are currently under examination for their German corporate and trade tax returns for the tax years ended March 31, 2011 through 2014. During the third quarter ended December 31, 2016, the Company completed an examination of certain of its Italian subsidiaries' corporate income tax returns for the tax years ended March 31, 2014 through 2016 and paid approximately $0.7 million upon the conclusion of such examination. 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 upon conclusion of the Company’s current ongoing 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 certain exceptions, the Company is no longer subject to U.S. federal income tax examinations for tax years ending prior to March 31, 2014, state and local income tax examinations for years ending prior to fiscal 2013 or significant foreign income tax examinations for years ending prior to fiscal 2012. With respect to the Company's U.S. federal NOL carryforward (which was fully utilized for 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 through March 31, 2013 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 currently open tax years.

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5. Earnings per Share

The following table presents the basis for income per share computations (in millions, except share amounts):

	Three Months Ended		Nine Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Numerator:				
Net income	$3.2	$ 24.3	$46.7	$ 68.1
Less: Non-controlling interest loss	—	(0.1)	—	(0.2)
Less: Dividends on preferred stock	(1.5)	—	(1.5)	—
Net income attributable to Rexnord common shareholders	$1.7	$ 24.4	$45.2	$ 68.3
Denominator:				
Weighted average common shares outstanding, basic	103,111	100,366	102,514	100,707
Effect of dilutive common shares equivalents	1,445	2,410	1,967	2,644
Weighted average common shares outstanding, dilutive	104,558	102,776	104,481	103,351

For the three and nine months ended December 31, 2016, diluted weighted average common shares outstanding do not include outstanding equity awards of 5.5 and 5.3 million common shares, respectively, and also do not include shares of preferred stock that are convertible into 5.1 and 1.7 million common shares, respectively, because to do so would have been anti-dilutive. For the three and nine months ended December 31, 2015, diluted weighted average common shares outstanding do not include outstanding equity awards of 3.6 million and 3.0 million common shares, respectively, because to do so would have been anti-dilutive.

6. Stockholders' Equity

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest (1)	Total Stockholders' Equity
Balance at March 31, 2016	$ —	$ 1.0	$856.2	$(129.6)	$ (139.0)	$ (0.6)	$ 588.0
Total comprehensive income (loss)	—	—	—	46.7	(28.7)	—	18.0
Acquisition of non-controlling interest		—	(0.9)	—	—	0.6	(0.3)
Stock-based compensation expense	—	—	9.8	—	—	—	9.8
Exercise of stock options, net of shares surrendered	—	—	9.6	—	—	—	9.6
Issuance of preferred stock, net of direct offering costs	—	—	389.7	—	—	—	389.7
Dividends on preferred stock	—	—	(1.5)	—	—	—	(1.5)
Balance at December 31, 2016	$ 0.0	$ 1.0	$1,262.9	$(82.9)	$ (167.7)	$ —	$ 1,013.3

(1) Represented a 49% non-controlling interest in a Water Management joint venture. During the first quarter of fiscal 2017, the Company acquired the remaining non-controlling interest for a cash purchase price of $0.3 million. See Note 2 for additional information.

Preferred Stock

On December 7, 2016, the Company issued 8,050,000 depositary shares, each of which represents a 1/20th interest in a share of 5.75% Series A Mandatory Convertible Preferred Stock (the "Series A Preferred Stock"), for an offering price of $20.99 per depository share. The Company issued an aggregate of 402,500 shares of Series A Preferred Stock in connection therewith. Unless converted earlier, each share of Series A Preferred Stock will convert automatically on the mandatory conversion date, which is November 15, 2019, into between 39.7020 and 47.6420 shares of the Company’s common stock, subject to customary anti-dilution adjustments. The number of shares of common stock issuable upon conversion will be determined based on a defined

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average volume weighted average price per share of the Company’s common stock preceding November 15, 2019. Holders of the Series A Preferred Stock may elect on a voluntary basis to convert their shares into common stock at the minimum exchange ratio at any time prior to the mandatory conversion date.
Dividends accumulate from the issuance date. Rexnord may pay such dividends in cash or, subject to certain limitations, by delivery of shares of the Company's common stock or through any combination of cash and shares of the Company's common stock as determined by the Company in its sole discretion. Any unpaid dividends will continue to accumulate. Dividends are payable quarterly, commencing on February 15, 2017 and ending on November 15, 2019. The shares of Series A Preferred Stock have a liquidation preference of $1,000 per share, plus accrued but unpaid dividends. With respect to dividend and liquidation rights, the Series A Preferred Stock ranks senior to the Company's common stock and junior to all existing and future indebtedness.
The net proceeds from the offering were approximately $390.2 million. The Company used $195.0 million of the proceeds to prepay a portion of the then-outstanding term loan indebtedness under its credit agreement, with the remainder retained for general corporate purposes. During the three and nine months ended December 31, 2016, the Series A Preferred Stock accrued $1.5 million of dividends.
Common Stock Repurchase Program
During the first quarter of fiscal 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; however, the program will continue until the maximum amount of dollars authorized have been expended or until it is modified or terminated by the Board. A total of approximately $160.0 million remained of the existing repurchase authority at December 31, 2016. No shares were repurchased during the three and nine months ended December 31, 2016.

7. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss, net of tax, for the nine months ended December 31, 2016 are as follows (in millions):

	Interest Rate Derivatives	Foreign Currency Translation	Pension and Postretirement Plans	Total
Balance at March 31, 2016	$ (16.9)	$ (86.5)	$ (35.6)	$(139.0)
Other comprehensive loss before reclassifications	0.7	(33.4)	—	(32.7)
Amounts reclassified from accumulated other comprehensive loss	4.9	—	(0.9)	4.0
Net current period other comprehensive income (loss)	5.6	(33.4)	(0.9)	(28.7)
Balance at December 31, 2016	$ (11.3)	$ (119.9)	$ (36.5)	$(167.7)

The following table summarizes the amounts reclassified from accumulated other comprehensive loss to net income during the three and nine months ended December 31, 2016 and December 31, 2015 (in millions):

	Three Months Ended December 31, 2016	December 31, 2015	Nine Months Ended December 31, 2016	December 31, 2015	Income Statement Line
Pension and other postretirement plans					
Amortization of prior service credit	$(0.5)	$ (0.5)	$(1.4)	$ (1.5)	Selling, general and administrative expenses
Provision for income taxes	0.2	0.2	0.5	0.6	
Total net of tax	$(0.3)	$ (0.3)	$(0.9)	$ (0.9)	

Interest rate derivatives					
Net realized losses on interest rate hedges	$2.7	$ 2.6	$7.9	$ 2.6	Interest expense, net
Benefit for income taxes	(1.0)	(1.0)	(3.0)	(1.0)	
Total net of tax	$1.7	$ 1.6	$4.9	$ 1.6	

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8. Inventories

The major classes of inventories are summarized as follows (in millions):

	December 31, 2016	March 31, 2016
Finished goods	$ 154.8	$ 148.4
Work in progress	48.5	55.3
Purchased components	76.5	67.6
Raw materials	52.5	49.3
Inventories at First-in, First-Out ("FIFO") cost	332.3	320.6
Adjustment to state inventories at Last-in, First-Out ("LIFO") cost	6.8	6.6
	$ 339.1	$ 327.2

9. Goodwill and Intangible Assets

The changes in the net carrying value of goodwill and identifiable intangible assets for the nine months ended December 31, 2016 by operating segment, are presented below (in millions):

			Amortizable Intangible Assets			
	Goodwill	Indefinite Lived Intangible Assets (tradenames)	Tradenames	Customer Relationships	Patents	Total Identifiable Intangible Assets Excluding Goodwill
Process & Motion Control						
Net carrying amount as of March 31, 2016	$942.4	$ 190.7	$9.1	$ 79.0	$ 1.9	$ 280.7
Acquisitions (1)	126.3	—	17.3	58.1	5.8	81.2
Purchase price allocation adjustments	2.3	—	(0.4)	0.2	(0.3)	(0.5)
Amortization	—	—	(1.8)	(15.1)	(0.9)	(17.8)
Currency translation and other adjustments	(4.9)	(0.2)	(0.2)	(2.0)	0.1	(2.3)
Net carrying amount as of December 31, 2016	$1,066.1	$ 190.5	$24.0	$ 120.2	$ 6.6	$ 341.3
Water Management						