Mueller Water Products, Inc.
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-32892
MUELLER WATER PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-3547095
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 Abernathy Road N.E.
Suite 1200
Atlanta, GA 30328
(Address of principal executive offices)
(770) 206-4200
(Registrant’s telephone number, including area code)

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 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 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 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

(Do not check if a smaller reporting company)

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

There were 158,169,389 shares of common stock of the registrant outstanding at July 31, 2018.

PART I
Item 1. FINANCIAL STATEMENTS
MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2018	September 30, 2017
	(in millions, except share amounts)	
Assets:		
Cash and cash equivalents	$331.5	$361.7
Receivables, net	145.8	145.3
Inventories	156.1	138.9
Other current assets	20.2	24.4
Total current assets	653.6	670.3
Property, plant and equipment, net	129.0	122.3
Intangible assets	424.6	439.3
Other noncurrent assets	26.1	26.4
Total assets	$1,233.3	$1,258.3
Liabilities and equity:		
Current portion of long-term debt	$0.8	$5.6
Accounts payable	63.8	82.5
Other current liabilities	62.8	53.5
Total current liabilities	127.4	141.6
Long-term debt	444.5	475.0
Deferred income taxes	76.9	115.1
Other noncurrent liabilities	46.4	37.1
Total liabilities	695.2	768.8
Commitments and contingencies (Note 11)		
Common stock: 600,000,000 shares authorized; 158,126,171 and 158,590,383 shares outstanding at June 30, 2018 and September 30, 2017, respectively	1.6	1.6
Additional paid-in capital	1,461.1	1,494.2
Accumulated deficit	(875.0)	(955.6)
Accumulated other comprehensive loss	(50.9)	(51.8)
Total Company stockholders’ equity	536.8	488.4
Noncontrolling interest	1.3	1.1
Total equity	538.1	489.5
Total liabilities and equity	$1,233.3	$1,258.3

The accompanying notes are an integral part of the condensed consolidated financial statements.
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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
	(in millions, except per share amounts)			
Net sales	$250.2	$232.2	$661.7	$599.1
Cost of sales	175.7	149.6	457.3	412.2
Gross profit	74.5	82.6	204.4	186.9
Operating expenses:				
Selling, general and administrative	41.3	38.4	123.8	113.4
Gain on sale of idle property	—	—	(9.0)	—
Strategic reorganization and other charges	2.6	1.2	8.4	5.0
Total operating expenses	43.9	39.6	123.2	118.4
Operating income	30.6	43.0	81.2	68.5
Pension costs other than service	0.2	0.4	0.7	1.1
Interest expense, net	5.3	5.1	15.7	17.0
Loss on early extinguishment of debt	6.2	—	6.2	—
Gain on settlement of interest rate swap contracts	(2.4)	—	(2.4)	—
Income before income taxes	21.3	37.5	61.0	50.4
Income tax expense (benefit)	6.0	13.4	(19.6)	16.2
Income from continuing operations	15.3	24.1	80.6	34.2
Income (loss) from discontinued operations	—	(0.1)	—	69.8
Net income	$15.3	$24.0	$80.6	$104.0
Income per basic share:				
Continuing operations	$0.10	$0.15	$0.51	$0.21
Discontinued operations	—	—	—	0.44
Net income	$0.10	$0.15	$0.51	$0.65
Income per diluted share:				
Continuing operations	$0.10	$0.15	$0.51	$0.21
Discontinued operations	—	—	—	0.43
Net income	$0.10	$0.15	$0.51	$0.64
Weighted average shares outstanding:				
Basic	158.1	159.1	158.3	160.6
Diluted	159.2	160.6	159.5	162.4
Dividends declared per share	$0.05	$0.04	$0.14	$0.11

The accompanying notes are an integral part of the condensed consolidated financial statements.
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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Net income	$15.3	$24.0	$80.6	$104.0
Other comprehensive income (loss):				
Pension	0.8	1.0	2.4	3.0
Income tax effects	(0.2)	(0.4)	(0.7)	(1.2)
Foreign currency translation	(2.0)	1.2	(2.3)	0.7
Derivative fair value change	(1.6)	(0.7)	2.4	4.5
Income tax effects	0.5	0.3	(0.9)	(1.7)
	(2.5)	1.4	0.9	5.3
Comprehensive income	$12.8	$25.4	$81.5	$109.3

The accompanying notes are an integral part of the condensed consolidated financial statements.
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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
NINE MONTHS ENDED JUNE 30, 2018
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	(in millions)					
Balance at September 30, 2017	$1.6	$1,494.2	$ (955.6)	$ (51.8)	$ 1.1	$489.5
Net income	—	—	80.6	—	0.2	80.8
Dividends declared	—	(22.2)	—	—	—	(22.2)
Stock repurchased under buyback program	—	(20.0)	—	—	—	(20.0)
Shares retained for employee taxes	—	(2.1)	—	—	—	(2.1)
Stock-based compensation	—	4.3	—	—	—	4.3
Common stock issued	—	6.9	—	—	—	6.9
Other comprehensive income, net of tax	—	—	—	0.9	—	0.9
Balance at June 30, 2018	$1.6	$1,461.1	$ (875.0)	$ (50.9)	$ 1.3	$538.1

The accompanying notes are an integral part of the condensed consolidated financial statements.
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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended June 30,	
	2018	2017
	(in millions)	
Operating activities:		
Net income	$80.6	$104.0
Less income from discontinued operations	—	69.8
Income from continuing operations	80.6	34.2
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation	15.3	14.9
Amortization	17.0	16.2
Loss on early extinguishment of debt	6.2	—
Stock-based compensation	4.3	3.5
Retirement plans	2.1	2.6
Deferred income taxes	(39.7)	(14.4)
Gain on sale of idle property	(9.0)	—
Other, net	4.5	1.4
Changes in assets and liabilities:		
Receivables	(0.6)	(5.8)
Inventories	(18.0)	(4.6)
Other assets	(3.5)	(4.0)
Liabilities	10.9	(18.6)
Net cash provided by operating activities of continuing operations	70.1	25.4
Investing activities:		
Business acquisition, net of cash acquired	—	(26.0)
Capital expenditures	(26.9)	(21.6)
Proceeds from sales of assets	7.4	0.2
Net cash used in investing activities of continuing operations	(19.5)	(47.4)
Financing activities:		
Dividends	(22.2)	(17.6)
Employee taxes related to stock-based compensation	(2.1)	(2.7)
Repayments of debt	(486.3)	(3.7)
Issuance of debt	450.0	—
Common stock issued	6.9	5.2
Debt issuance costs	(6.6)	(1.0)
Stock repurchased under buyback program	(20.0)	(55.0)
Other	0.2	0.2
Net cash used in financing activities of continuing operations	(80.1)	(74.6)
Net cash flows from discontinued operations:		
Operating activities	—	(42.5)
Investing activities	—	297.2
Financing activities	—	(0.1)
Net cash provided by discontinued operations	—	254.6
Effect of currency exchange rate changes on cash	(0.7)	0.2
Net change in cash and cash equivalents	(30.2)	158.2

Cash and cash equivalents at beginning of period	361.7	195.0
Cash and cash equivalents at end of period	$331.5	$353.2

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2018
Note 1. Organization
Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in two business segments: Infrastructure and Technologies. Infrastructure manufactures valves for water and gas systems, including butterfly, iron gate, tapping, check, knife, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants. Technologies offers metering systems, leak detection, pipe condition assessment and other related products and services. The “Company,” “we,” “us” or “our” refer to Mueller Water Products, Inc. and its subsidiaries. With regard to the Company’s segments, “we,” “us” or “our” may also refer to the segment being discussed.
On January 6, 2017, we sold our former Anvil segment. Amounts applicable to Anvil have been classified as discontinued operations.
Infrastructure owns a 49% ownership interest in an industrial valve joint venture. Due to substantive control features in the operating agreement, all of the joint venture’s assets, liabilities and results of operations are included in our consolidated financial statements. The net gain or loss attributable to noncontrolling interest is included in selling, general and administrative expenses. Noncontrolling interest is recorded at its carrying value, which approximates fair value.
Unless the context indicates otherwise, whenever we refer to a particular year, we mean our fiscal year ended or ending September 30 in that particular calendar year.
Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which require us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses and the disclosure of contingent assets and liabilities for the reporting periods. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2017. In our opinion, all normal and recurring adjustments that we consider necessary for a fair financial statement presentation have been made. Certain reclassifications have been made to previously reported amounts to conform to the current presentation. The condensed consolidated balance sheet data at September 30, 2017 was derived from audited financial statements, but does not include all disclosures required by GAAP.
On February 15, 2017, we acquired Singer Valve, a manufacturer of automatic control valves, and its affiliate that distributes Singer Valve products in the U.S, for an ultimate aggregate cash purchase price of $26.6 million.
On October 1, 2017, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update No. 2017-07, which requires us to exclude from operating income the components of net periodic benefit cost other than service cost. Accordingly, in the Condensed Consolidated Statement of Operations we have reclassified to pension costs other than service $0.3 million and $0.8 million from selling, general and administrative expenses and $0.1 million and $0.3 million from cost of sales for the three months and nine months ended June 30, 2017, respectively.
HR-1, formerly referred to as the Tax Cuts and Jobs Act, was enacted on December 22, 2017 and made significant revisions to federal income tax laws, including lowering the corporate income tax rate to 21% from 35%, effective January 1, 2018. The effects of these revisions are discussed in Note 3.
In May 2014, the FASB issued new guidance for the recognition of revenue and the requirement for additional financial statement disclosures. We plan to adopt this guidance using the modified retrospective transition method beginning in the first quarter of fiscal 2019. We have completed our initial scoping and established a project team to evaluate revenue recognition practices for each revenue stream against the new requirements, to suggest changes to the terms of our sales contracts if warranted, and to design and implement processes to comply with the new requirements. The project team has completed a preliminary evaluation our sales contracts and we are designing process controls over ongoing compliance. At this time. we do not expect the new guidance to materially affect our stockholders’ equity, net sales or operating income.
On September 7, 2017, we announced a strategic reorganization plan designed to accelerate our product innovation and revenue growth. We have adopted a matrix management structure, where business teams have line and cross-functional responsibility for managing distinct product portfolios, and engineering, operations, sales and

marketing and other functions are centralized to better align with business needs and generate greater efficiencies. Costs and expenses in the nine months ended June 30, 2018 for this plan, included in strategic reorganization and other charges, were primarily personnel-related.

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Activity in accrued restructuring, reported as part of other current liabilities, is presented below.

	Nine months ended June 30, 2018
	(in millions)
Beginning balance	$ 3.3
Expense	4.4
Payments	(6.3)
Ending balance	$ 1.4

Note 2. Discontinued Operations and Divestitures

On December 4, 2017, we sold an idle property in Burlington, New Jersey that had previously been a plant in our former U.S. Pipe segment and recorded a gain of $9.0 million in our Corporate segment. We received $7.4 million in cash, recorded net current assets of $0.8 million and conveyed plant, property and equipment with a net carrying value of $0.4 million, and the buyer assumed related environmental liabilities with a carrying value of $1.2 million.

On January 6, 2017, we sold our former Anvil segment to affiliates of One Equity Partners. The final cash proceeds of this sale were $305.7 million. The table below presents a summary of the operating results for the Anvil discontinued operations during the quarter and nine months ended June 30, 2017. These operating results do not reflect what they would have been had Anvil not been sold.

	Three months ended June 30, 2017	Nine months ended June 30, 2017
	(in millions)	
Net sales	$—	$ 83.1
Cost of sales	—	62.8
Gross profit	—	20.3
Operating expenses:		
Selling, general and administrative	0.1	17.0
Other charges	—	0.2
Total operating expenses	0.1	17.2
Income before income taxes	(0.1)	3.1
Income tax expense	—	1.2
	(0.1)	1.9
Gain on sale, net of tax	—	67.9
Income from discontinued operations	$(0.1)	$ 69.8

Note 3. Income Taxes

On December 22, 2017, HR-1, formerly referred to as the Tax Cuts and Jobs Act (“Act”), was enacted, which made significant revisions to federal income tax laws, including lowering the corporate income tax rate to 21% from 35% effective January 1, 2018, overhauling the taxation of income earned outside the United States and eliminating or limiting certain deductions.

Our deferred tax assets and liabilities are recorded at the enacted tax rates in effect when we expect to recognize the related tax expenses or benefits. The average of these rates varies slightly from year to year but historically has been approximately 39%. With the legislation changing rates taking place in the quarter ended December 31, 2017, we remeasured our deferred tax items at an average rate of approximately 25% and recorded a provisional income tax benefit of $42.6 million, which is subject to change, as we continue to analyze certain aspects of the Act and refine our calculations. We do not expect changes to this amount to be material.

The Act also imposes a one-time transition tax on the undistributed, previously-untaxed, post-1986 foreign "earnings and profits" (as defined by the IRS) of certain U.S.-owned corporations. Determination of our transition tax liability requires us to calculate foreign earnings and profits going back to 1992 and then to assess our historical overall foreign loss position and the applicability of certain foreign tax credits. During the quarter ended March 31, 2018, we recorded a provisional estimated transition tax of $7.5 million, excluding any state income tax impact, on approximately $96.8 million of undistributed accumulated earnings and profits of foreign subsidiaries. The transition tax is payable over eight years beginning in fiscal year 2019. The undistributed accumulated earnings and profits are now considered previously taxed income and will no longer be subject to U.S. federal income taxes upon repatriation of the earnings in the form of dividends. The undistributed accumulated earnings and profits are considered permanently reinvested and, accordingly, no provision for deferred taxes on financial statement and tax differences, local withholdings or foreign exchange gains or losses have been provided. However, we could be subject to additional local withholding taxes upon repatriation of these earnings in the form of a dividend. We are continuing to gather and evaluate information related to the state income tax impact of the Act, including the state income tax impact of the transition tax. In addition to these state income tax related matters, the final transition tax calculation is also dependent on our balance sheet at September 30, 2018, and therefore is subject to change. We do not expect changes to this amount to be material.

In addition to the adoption items discussed above, the results of our operations include federal income tax expense on our current period earnings at a full-year blended rate of 24.5%, since the rate reduction in the Act is effective on January 1, 2018 The reconciliation between the U.S. federal statutory income tax rate and the effective tax rate is presented below.

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
U.S. federal statutory income tax rate	24.5 %	35.0 %	24.5 %	35.0 %
Adjustments to reconcile to the effective tax rate:				
State tax apportionment change	—	—	—	1.7
State income taxes, net of federal benefit	4.8	3.9	4.5	3.9
Excess tax benefits related to stock compensation	(0.2)	(0.2)	(1.2)	(4.6)
Domestic production activities deduction	(1.7)	(4.7)	(1.6)	(4.5)
Tax credits	(1.1)	(1.0)	(1.0)	(1.7)
Other	1.9	2.7	0.2	2.3
	28.2 %	35.7 %	25.4 %	32.1 %
Transition tax	—	—	12.3	—
Remeasurement of deferred taxes for change in rates	—	—	(69.8)	—
Effective income tax rate	28.2 %	35.7 %	(32.1)%	32.1 %

At June 30, 2018 and September 30, 2017, the gross liabilities for unrecognized income tax benefits were $3.3 million and $3.0 million, respectively.

Note 4. Borrowing Arrangements

The components of our long-term debt are presented below.

	June 30, 2018	September 30, 2017
	(in millions)	
ABL Agreement	$—	$ —
5.5% Senior Notes	450.0	—
Term Loan	—	484.8
Other	1.9	1.7
	451.9	486.5
Less deferred debt issuance costs	6.6	5.9

Less current portion	0.8	5.6
Long-term debt	$444.5	$ 475.0

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ABL Agreement. At June 30, 2018, our asset-based lending agreement (“ABL Agreement”) consisted of a revolving credit facility for up to $225 million of revolving credit borrowings, swing line loans and letters of credit. On July 19, 2018, we reduced this by $50 million, to $175.0 million. The ABL Agreement permits us to increase the size of the credit facility by an additional $150 million in certain circumstances subject to adequate borrowing base availability. We may borrow up to $25 million through swing line loans and may have up to $60 million of letters of credit outstanding.

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR, plus a margin ranging from 125 to 150 basis points, or a base rate, as defined in the ABL Agreement, plus a margin ranging from 25 to 50 basis points. At June 30, 2018, the applicable rate was LIBOR plus 125 basis points.

The ABL Agreement terminates on July 13, 2021. We pay a commitment fee for any unused borrowing capacity under the ABL Agreement of 25 basis points per annum. Our obligations under the ABL Agreement are secured by a first-priority perfected lien on all of our U.S. receivables and inventories, certain cash and other supporting obligations. Borrowings are not subject to any financial maintenance covenants unless excess availability is less than the greater of $17.5 million and 10% of the Loan Cap as defined in the ABL Agreement. Excess availability based on June 30, 2018 data, as reduced by outstanding letters of credit, swap contract balances and accrued fees and expenses of $18.1 million, was $112.0 million.

5.5% Senior Unsecured Notes. On June 12, 2018, we privately issued $450.0 million of 5.5% Senior Unsecured Notes (“Notes”), which mature in June 2026 and bear interest at 5.5%, paid semi-annually. Substantially all of our U.S. Subsidiaries guarantee the Notes, which are subordinate to borrowings under the ABL. Based on quoted market prices, the outstanding Notes had a fair value of $452.3 million at June 30, 2018.

An indenture securing the Notes (“Indenture”) contains customary covenants and events of default, including covenants that limit our ability to incur debt, pay dividends, and make investments. We believe we were compliant with these covenants at June 30, 2018 and expect to remain in compliance through June 30, 2019.

We may redeem some or all of the Notes at any time or from time to time prior to June 15, 2021 at certain “make-whole” redemption prices (as set forth in the Indenture) and on or after June 15, 2021 at specified redemption prices (as set forth in the Indenture). Additionally, we may redeem up to 40% of the aggregate principal amount of the Notes at any time or from time to time prior to June 15, 2021 with the net proceeds of specified equity offerings at specified redemption prices (as set forth in the Indenture). Upon a change of control (as defined in the Indenture), we will be required to make an offer to purchase the Notes at a price equal to 101% of the outstanding principal amount of the Notes.

Term Loan. On November 25, 2014, we entered into a $500.0 million senior secured term loan (“Term Loan”), which accrued interest at a floating rate equal to LIBOR, subject to a floor of 0.75%, plus 250 basis points. The principal amount of the Term Loan was required to be repaid in quarterly installments of $1.225 million, with any remaining principal due on November 25, 2021. We repaid the Term Loan on June 12, 2018 with the proceeds from the issuance of the Notes and cash on hand. We wrote-off the associated deferred debt issuance costs and unamortized original issue discount and recorded a loss on the early extinguishment of debt of $6.2 million.

Note 5. Derivative Financial Instruments

Prior to the June 12, 2018 retirement of our Term Loan, we were exposed to interest rate risk that we managed to some extent using derivative instruments. We terminated these instruments in conjunction with the repayment of the Term Loan described in Note 4. Under our April 2015 interest rate swap contracts, we received interest calculated using 3-month LIBOR, subject to a floor of 0.75%, and paid fixed interest at 2.341%, on an aggregate notional amount of $150.0 million. These swap contracts effectively fixed the cash interest rate on $150.0 million of our borrowings under the Term Loan at 4.841% from September 30, 2016 through September 30, 2021.

Upon termination of the interest rate swaps, we reclassified all associated amounts from accumulated other comprehensive loss to earnings, which resulted in a cash gain of $2.4 million in the quarter ended June 30, 2018.

We had designated our interest rate swap contracts as cash flow hedges of our future interest payments and elected to apply the “shortcut” method of assessing hedge effectiveness. As a result, the gains and losses on the swap contracts had been reported as a component of other comprehensive loss and were reclassified into interest expense as the related interest payments were made. Excluding the settlement gain described above, we included $0.0 million and $0.5 million of such interest expense in income from continuing operations during the quarters ended June 30, 2018 and

June 30, 2017, respectively, and $0.6 million and $1.5 million during the nine months ended June 30, 2018 and June 30, 2017, respectively.

In connection with the acquisition of Singer Valve, Mueller Water Products, Inc. loaned U.S. dollars to one of our Canadian subsidiaries. Although this intercompany loan has no direct effect on our consolidated financial statements, it creates exposure to currency risk for the Canadian subsidiary. To reduce this exposure, we entered into a U.S. dollar-Canadian dollar swap contract with the Canadian subsidiary and an offsetting Canadian dollar-U.S. dollar swap with a domestic bank. We have not designated these swaps as hedges and the changes in their fair value are included in earnings, where they offset the currency gains and losses associated with the intercompany loan.

The fair values of the swap contracts are presented below.

	June 30, 2018	September 30, 2017
	(in millions)	
Interest rate swap contracts, designated as cash flow hedges:		
Other current liabilities	$—	$ 1.2
Other noncurrent liabilities	—	1.3
	$—	$ 2.5
Currency swap contracts, not designated as hedges:		
Other noncurrent liabilities	$0.6	$ 1.3

The fair values of the interest rate swaps and the classification of the fair values between current and noncurrent portions were based on calculated cash flows using publicly available interest rate forward rate yield curve information.

The fair values of the currency swaps are as reported to us by the bank counterparty, which we believe to be a reliable source.

Note 6. Retirement Plans

The components of net periodic benefit cost for our pension plans are presented below.

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Service cost	$0.5	$0.5	$1.4	$1.5
Pension costs other than service:				
Interest cost	3.5	3.6	10.7	10.8
Expected return on plan assets	(4.1)	(4.2)	(12.4)	(12.7)
Amortization of actuarial net loss	0.8	1.0	2.4	3.0
	0.2	0.4	0.7	1.1
Net periodic benefit cost	$0.7	$0.9	$2.1	$2.6

The amortization of actuarial losses, net of tax, is recorded as a component of other comprehensive loss.

Note 7. Stock-based Compensation Plans

We have granted various forms of stock-based compensation, including stock options, restricted stock units and both cash-settled and stock-settled performance-based restricted stock units (“PRSUs”) under our Amended and Restated 2006 Mueller Water Products, Inc. Stock Incentive Plan (the “2006 Stock Plan”).

A PRSU award represents a target number of units that may be paid out at the end of a multi-year award cycle consisting of a series of annual performance periods coinciding with our fiscal years. After we determine the financial performance targets related to PRSUs for a given performance period, typically during the first quarter of that fiscal year, we consider that portion of a PRSU award to be granted. Thus, each award consists of a grant in the year of award and grants in the designated following years. Settlement will range from zero to two times the number of PRSUs granted, depending on our financial performance against the targets. As determined at the date of award, PRSUs may settle in cash-value equivalent of, or directly in, shares of our common stock.

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We awarded 171,288 stock-settled PRSUs in the nine months ended June 30, 2018 scheduled to settle in three years. We issued 146,061 shares and 263,410 shares of common stock during the nine months ended June 30, 2018 and 2017, respectively, to settle PRSUs.

In addition to the PRSU activity, 3,333 and 342,038 restricted stock units vested during the three and nine months ended June 30, 2018, respectively.

We have granted cash-settled Phantom Plan instruments under the Mueller Water Products, Inc. Phantom Plan ("Phantom Plan"). At June 30, 2018, the outstanding Phantom Plan instruments had a fair value of $11.72 per instrument and our liability for Phantom Plan instruments was $1.7 million.

We granted stock-based compensation awards under the 2006 Stock Plan, the Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan and the Phantom Plan during the nine months ended June 30, 2018 as follows.

	Number granted	Weighted average grant date fair value per instrument	Total grant date fair value (in millions)
Quarter ended December 31, 2017:			
Restricted stock units	171,288	$ 12.41	$ 2.1
Employee stock purchase plan instruments	35,099	2.28	0.1
Phantom Plan awards	160,672	12.41	2.0
PRSUs: 2018 award	57,092	12.41	0.7
2017 award	71,070	12.41	0.9
2016 award	71,072	12.41	0.9
Quarter ended March 31, 2018:			
Restricted stock units	63,389	11.67	0.7
Employee stock purchase plan instruments	32,702	2.49	0.1
Phantom Plan awards	2,527	10.95	—
Quarter ended June 30, 2018:			
Employee stock purchase plan instruments	37,939	2.16	0.1
			$ 7.6

Income from continuing operations included stock-based compensation expense of $1.2 million and $0.4 million during the three months ended June 30, 2018 and 2017, respectively, and $5.3 million and $5.1 million during the nine months ended June 30, 2018 and 2017, respectively. At June 30, 2018, there was approximately $6.6 million of unrecognized compensation expense related to stock-based compensation arrangements, and 178,105 PRSUs that have been awarded for the 2019 and 2020 performance periods, for which performance goals have not been set.

We excluded 213,599 and 165,186 of stock-based compensation instruments from the calculations of diluted earnings per share for the quarters ended June 30, 2018 and 2017, respectively, and 245,033 and 208,868 for the nine months ended June 30, 2018 and 2017, respectively, since their inclusion would have been antidilutive.

Note 8. Supplemental Balance Sheet Information
Selected supplemental balance sheet information is presented below.

	June 30, 2018	September 30, 2017
	(in millions)	
Inventories:		
Purchased components and raw material	$80.1	$ 67.7
Work in process	38.6	35.6
Finished goods	37.4	35.6
	$156.1	$ 138.9
Other current assets:		
Maintenance and repair tooling	$3.4	$ 3.3
Income taxes	3.5	10.9
Other	13.3	10.2
	$20.2	$ 24.4
Property, plant and equipment:		
Land	$5.4	$ 5.6
Buildings	54.5	53.4
Machinery and equipment	289.7	266.7
Construction in progress	18.8	24.7
	368.4	350.4
Accumulated depreciation	(239.4)	(228.1)
	$129.0	$ 122.3
Other current liabilities:		
Compensation and benefits	$29.4	$ 26.9
Customer rebates	7.9	6.5
Taxes other than income taxes	3.6	3.2
Warranty	8.8	3.5
Income taxes	0.6	0.9
Environmental	1.2	1.3
Interest	1.8	0.6
Restructuring	1.4	3.3
Other	8.1	7.3
	$62.8	$ 53.5

Note 9. Segment Information

Summarized financial information for our segments is presented below.

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Net sales, excluding intercompany:				
Infrastructure	$224.1	$207.6	$595.3	$535.5
Technologies	26.1	24.6	66.4	63.6
	$250.2	$232.2	$661.7	$599.1
Intercompany sales:				
Infrastructure	$—	$—	$—	$1.1
Technologies	—	—	—	—
	$—	$—	$—	$1.1
Operating income (loss):				
Infrastructure	$57.0	$53.0	$130.0	$113.6
Technologies	(16.1)	(1.6)	(24.7)	(17.5)
Corporate	(10.3)	(8.4)	(24.1)	(27.6)
	$30.6	$43.0	$81.2	$68.5
Depreciation and amortization:				
Infrastructure	$9.2	$8.9	$27.7	$27.0
Technologies	1.5	1.2	4.4	3.8
Corporate	0.1	0.1	0.2	0.3
	$10.8	$10.2	$32.3	$31.1
Strategic reorganization and other charges:				
Infrastructure	$—	$0.4	$0.1	$2.1
Technologies	—	—	0.1	0.1
Corporate	2.6	0.8	8.2	2.8
	$2.6	$1.2	$8.4	$5.0
Capital expenditures:				
Infrastructure	$10.7	$6.1	$21.8	$13.8
Technologies	2.0	1.3	5.0	7.6
Corporate	(0.2)	0.1	0.1	0.2
	$12.5	$7.5	$26.9	$21.6

The Technologies operating losses for the three and nine months ended June 30, 2018 included a warranty charge of $14.1 million and for the nine months ended June 30, 2017 included a warranty charge of $9.8 million, as described in Note 11.

Note 10. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented below.

	Pension, net of tax	Foreign currency translation	Derivative instruments, net of tax	Total
Balance at September 30, 2017	$(47.0)	$ (3.3)	$ (1.5)	$(51.8)
Current period other comprehensive income (loss)	1.7	(2.3)	1.5	0.9
Balance at June 30, 2018	$(45.3)	$ (5.6)	$ —	$(50.9)

Note 11. Commitments and Contingencies

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. The effect of the outcome of these matters on our financial statements cannot be predicted with certainty as any such effect depends on the amount and timing of the resolution of such matters. Other than the litigation described below, we do not believe that any of our outstanding litigation would have a material adverse effect on our business or prospects.

Environmental. We are subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or other properties. We accrue for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable.

In the acquisition agreement pursuant to which a predecessor to Tyco sold our businesses to a previous owner in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all "Excluded Liabilities." Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. Tyco's indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. Since 2007, Tyco has engaged in multiple corporate restructurings, split-offs and divestitures. While none of these transactions directly affects the indemnification obligations of the Tyco indemnitors under the 1999 acquisition agreement, the result of such transactions is that the assets of, and control over, such Tyco indemnitors has changed. Should any of these Tyco indemnitors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

On July 13, 2010, Rohcan Investments Limited, the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its directors seeking C$10.0 million in damages arising from the defendants' alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2008. We are pursuing indemnification from a former owner for certain potential liabilities that are alleged in this lawsuit, and we have accrued for other liabilities not covered by indemnification. On December 7, 2011, the Court denied the plaintiff's motion for summary judgment.

The purchaser of U.S. Pipe has been identified as a "potentially responsible party" ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") in connection with a former manufacturing facility operated by U.S. Pipe that was in the vicinity of a proposed Superfund site located in North Birmingham, Alabama. Under the terms of the acquisition agreement relating to our sale of U.S. Pipe, we agreed to indemnify the purchaser for certain environmental liabilities, including those arising out of the former manufacturing site in North Birmingham. Accordingly, the purchaser tendered the matter to us for indemnification, which we accepted. Ultimate liability