

Rexnord Corp
Form 10-Q
November 06, 2014
Table of Contents

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 September 30, 2014

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.)

4701 West Greenfield Avenue, Milwaukee,
Wisconsin

53214

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (414) 643-3000

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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

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

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 October 31, 2014 |
|--|---------------------------------|
| Rexnord Corporation Common Stock, \$0.01 par value per share | 101,692,832 shares |

Table of Contents

TABLE OF CONTENTS

Part I FINANCIAL INFORMATION

| | | |
|---------|--|-----------|
| Item 1. | <u>Financial Statements</u> | <u>4</u> |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>26</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>36</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>37</u> |

Part II OTHER INFORMATION

| | | |
|---------|--------------------------|-----------|
| Item 1. | <u>Legal Proceedings</u> | <u>38</u> |
| Item 6. | <u>Exhibits</u> | <u>38</u> |
| | <u>Signatures</u> | <u>39</u> |
| | <u>Exhibit Index</u> | <u>40</u> |

Table of Contents

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, 2014 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 2015, or fiscal 2015, means the period from April 1, 2014 to March 31, 2015 and the second quarters of fiscal 2015 and 2014 mean the fiscal quarters ended September 30, 2014 and September 28, 2013, respectively.

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2014 | March 31, 2014 |
|--|-----------------------|----------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$361.3 | \$339.0 |
| Receivables, net | 343.8 | 368.3 |
| Inventories, net | 373.6 | 359.7 |
| Other current assets | 51.4 | 53.8 |
| Total current assets | 1,130.1 | 1,120.8 |
| Property, plant and equipment, net | 424.9 | 440.9 |
| Intangible assets, net | 569.9 | 592.6 |
| Goodwill | 1,164.7 | 1,150.7 |
| Insurance for asbestos claims | 36.0 | 36.0 |
| Other assets | 41.4 | 42.5 |
| Total assets | \$3,367.0 | \$3,383.5 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current maturities of debt | \$29.5 | \$29.0 |
| Trade payables | 192.4 | 241.1 |
| Compensation and benefits | 50.4 | 61.4 |
| Current portion of pension and postretirement benefit obligations | 5.7 | 5.8 |
| Other current liabilities | 117.1 | 112.2 |
| Total current liabilities | 395.1 | 449.5 |
| Long-term debt | 1,934.6 | 1,943.0 |
| Pension and postretirement benefit obligations | 137.7 | 147.7 |
| Deferred income taxes | 228.6 | 207.1 |
| Liability for asbestos claims | 36.0 | 36.0 |
| Other liabilities | 42.3 | 38.1 |
| Total liabilities | 2,774.3 | 2,821.4 |
| 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: 102,566,236 at September 30, 2014 and 102,055,058 at March 31, 2014 | 1.0 | 1.0 |
| Additional paid-in capital | 881.1 | 872.7 |
| Retained deficit | (232.0) |) (281.3) |
| Accumulated other comprehensive loss | (50.7) |) (23.8) |
| Treasury stock at cost; 900,904 shares at September 30, 2014 and March 31, 2014 | (6.3) |) (6.3) |
| Total Rexnord stockholders' equity | 593.1 | 562.3 |

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| | | | |
|---|-----------|-----------|---|
| Non-controlling interest | (0.4 |) (0.2 |) |
| Total stockholders' equity | 592.7 | 562.1 | |
| Total liabilities and stockholders' equity | \$3,367.0 | \$3,383.5 | |
| See notes to the condensed consolidated financial statements. | | | |

4

Table of Contents

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

| | Second Quarter Ended | | Six Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 28, 2013 | September 30, 2014 | September 28, 2013 |
| Net sales | \$537.9 | \$514.5 | \$1,047.7 | \$1,023.2 |
| Cost of sales | 341.6 | 322.7 | 672.1 | 649.5 |
| Gross profit | 196.3 | 191.8 | 375.6 | 373.7 |
| Selling, general and administrative expenses | 103.6 | 105.4 | 208.4 | 212.0 |
| Restructuring and other similar charges | 1.4 | 1.2 | 4.8 | 3.0 |
| Amortization of intangible assets | 13.7 | 12.6 | 27.2 | 25.1 |
| Income from operations | 77.6 | 72.6 | 135.2 | 133.6 |
| Non-operating expense: | | | | |
| Interest expense, net | (22.0 |) (29.2 |) (44.5 |) (64.2 |
| Loss on the extinguishment of debt | — | (129.2 |) — | (133.2 |
| Other (expense) income, net | (2.3 |) 0.1 | (3.6 |) (6.1 |
| Income (loss) from operations before income taxes | 53.3 | (85.7 |) 87.1 | (69.9 |
| Provision (benefit) for income taxes | 16.2 | (33.2 |) 38.0 | (31.0 |
| Net income (loss) | \$37.1 | \$(52.5 |) \$49.1 | \$(38.9 |
| Non-controlling interest loss | (0.1 |) (0.2 |) (0.2 |) (0.4 |
| Net income (loss) attributable to Rexnord | \$37.2 | \$(52.3 |) \$49.3 | \$(38.5 |
| Net income (loss) per share: | | | | |
| Basic | \$0.37 | \$(0.54 |) \$0.48 | \$(0.40 |
| Diluted | \$0.35 | \$(0.54 |) \$0.47 | \$(0.40 |
| Net income (loss) per share attributable to Rexnord: | | | | |
| Basic | \$0.37 | \$(0.54 |) \$0.49 | \$(0.40 |
| Diluted | \$0.36 | \$(0.54 |) \$0.47 | \$(0.40 |
| Weighted-average number of shares outstanding (in thousands) | | | | |
| Basic | 101,451 | 97,457 | 101,344 | 97,347 |
| Effect of dilutive equity awards | 3,259 | — | 3,279 | — |
| Diluted | 104,710 | 97,457 | 104,623 | 97,347 |

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

| | Second Quarter Ended | | Six Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 28, 2013 | September 30, 2014 | September 28, 2013 |
| Net income (loss) attributable to Rexnord | \$37.2 | \$(52.3 |) \$49.3 | \$(38.5 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (22.2 |) 10.4 | (23.9 |) 7.9 |

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| | | | | |
|--|--------|----------|----------|----------|
| Unrealized income (loss) on interest rate derivatives, net of tax | 1.3 | — | (2.4 |) — |
| Change in pension and other postretirement defined benefit plans, net of tax | (0.3 |) (0.2 |) (0.6 |) (0.5 |
| Other comprehensive (loss) income, net of tax | (21.2 |) 10.2 | (26.9 |) 7.4 |
| Non-controlling interest loss | \$(0.1 |) \$(0.2 |) (0.2 |) (0.4 |
| Total comprehensive income (loss) | \$15.9 | \$ (42.3 |) \$22.2 | \$ (31.5 |

See notes to the condensed consolidated financial statements.

Table of Contents

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

| | Six Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2014 | September 28, 2013 |
| Operating activities | | |
| Net income (loss) | \$49.1 | \$(38.9) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation | 29.7 | 28.8 |
| Amortization of intangible assets | 27.2 | 25.1 |
| Amortization of deferred financing costs | 1.1 | 1.6 |
| Loss on dispositions of property, plant and equipment | 0.8 | 1.1 |
| Deferred income taxes | 23.8 | (37.7) |
| Other non-cash charges (credits) | 2.5 | (1.6) |
| Loss on debt extinguishment | — | 133.2 |
| Stock-based compensation expense | 2.7 | 3.5 |
| Changes in operating assets and liabilities: | | |
| Receivables | 6.8 | — |
| Inventories | (18.2) | (20.7) |
| Other assets | 1.5 | (4.3) |
| Accounts payable | (45.6) | (7.8) |
| Accruals and other | (2.9) | (73.2) |
| Cash provided by operating activities | 78.5 | 9.1 |
| Investing activities | | |
| Expenditures for property, plant and equipment | (21.2) | (19.2) |
| Acquisitions, net of cash acquired | (27.7) | (34.4) |
| Cash used for investing activities | (48.9) | (53.6) |
| Financing activities | | |
| Proceeds from borrowings of long-term debt | — | 1,930.5 |
| Repayments of long-term debt | (9.9) | (1,933.2) |
| Proceeds from borrowings of short-term debt | 9.1 | 6.0 |
| Repayments of short-term debt | (8.3) | (154.2) |
| Payment of deferred financing fees | — | (16.3) |
| Payment of early redemption premium on long-term debt | — | (109.9) |
| Proceeds from exercise of stock options | 0.8 | 1.3 |
| Third party investment in non-controlling interest | — | 0.4 |
| Excess tax benefit on exercise of stock options | 4.9 | 2.4 |
| Cash used for financing activities | (3.4) | (273.0) |
| Effect of exchange rate changes on cash and cash equivalents | (3.9) | (0.2) |
| Increase (decrease) in cash and cash equivalents | 22.3 | (317.7) |
| Cash and cash equivalents at beginning of period | 339.0 | 524.1 |
| Cash and cash equivalents at end of period | \$361.3 | \$206.4 |

See notes to the condensed consolidated financial statements.

Table of Contents

Rexnord Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2014
(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, 2015. 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 2014 Annual Report on Form 10-K.

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 Process & Motion Control platform designs, manufactures, markets and services specified, highly-engineered mechanical components used within complex systems where our customers' reliability requirements and cost of failure or downtime is extremely high. The Process & Motion Control product portfolio includes gears, couplings, industrial bearings, aerospace bearings and seals, FlatTop™ chain, engineered chain and conveying equipment. 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 specification drainage products, flush valves and faucet products, backflow prevention pressure release valves, and PEX piping used primarily in non-residential construction end-markets and engineered valves and gates for the water and wastewater treatment market.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers 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 2017 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 our consolidated financial statements.

In March 2014, the FASB issued 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. ASU 2014-08 will be effective for the Company in the first quarter of fiscal 2016. As this guidance is a prospective change, adoption of this standard is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

7

Table of Contents

2. Acquisitions

Fiscal Year 2015 Acquisition

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 April 15, 2014. The acquisition of Green Turtle was 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 acquisition during the second quarter and six months ended September 30, 2014 have not been presented because they are not significant to the Company's condensed consolidated statements of operations and financial position.

The Green Turtle acquisition was accounted for as a business combination and recorded by allocating the purchase price of the acquisition to the fair value of the 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. The initial purchase price allocation resulted in non-tax deductible goodwill of \$19.9 million, other intangible assets of \$10.4 million and other net liabilities of \$2.6 million. The purchase price allocation is preliminary and subject to final working capital and other valuation adjustments that will be completed within the one year period following the acquisition date.

Fiscal Year 2014 Acquisitions

On December 16, 2013, the Company acquired Precision Gear Holdings, LLC ("PGH") for a total cash purchase price of \$77.1 million, net of cash acquired and excluding transaction costs. PGH has two operating subsidiaries, Merit Gear LLC ("Merit Gear"), located in Antigo, Wisconsin, and Precision Gear LLC ("Precision Gear"), located in Twinsburg, Ohio. Merit Gear is a build-to-print manufacturer of high-quality gearing and specialized gearboxes primarily for the North American oil and gas market, along with other diversified industrial markets. Precision Gear is a leading manufacturer of highly specialized gears primarily serving the aerospace market, along with various other industrial markets. This acquisition was complementary to the Company's existing Process & Motion Control platform.

On August 30, 2013, the Company acquired certain assets of L.W. Gemmell ("LWG") for a total cash purchase price of \$8.2 million, excluding transactions costs. LWG, based in Australia, is a distributor of non-residential plumbing products. A portion of LWG's historical sales were from existing Rexnord Water Management product lines. As such, the acquisition provided the Company with additional product offerings and the opportunity to expand its international presence through a more direct ownership structure.

On August 21, 2013, the Company acquired certain assets of Micro Precision Gear Technology Limited ("Micro Precision") for a total cash purchase price of \$22.2 million, excluding transactions costs. Micro Precision, based in the United Kingdom, is a build-to-print manufacturer of specialty gears and electric motor components primarily sold to the aerospace market. This acquisition expanded the Company's existing Process & Motion Control product offerings and its presence in Europe.

On April 26, 2013, the Company acquired Klamflex Pipe Couplings Ltd. ("Klamflex") for a total cash purchase price of \$4.5 million, net of cash acquired and excluding transaction costs. Klamflex, based in South Africa, is a manufacturer of pipe couplings, flange adapters, dismantling joints and repair clamps. This acquisition broadened the product portfolio of the Company's existing Water Management platform and expanded the Company's presence

globally.

The Company's results of operations include the acquired operations subsequent to the respective acquisition dates included above. The acquisitions of PGH, LWG, Micro Precision and Klamflex were not material to the Company's condensed consolidated financial statements, either individually or in the aggregate. Pro-forma results of operations and certain other U.S. GAAP disclosures related to the acquisitions during fiscal year ended March 31, 2014 have not been presented because they are not significant to the Company's condensed consolidated statements of operations and financial position, either individually or in the aggregate.

The fiscal 2014 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 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 second quarter of fiscal 2015, the Company adjusted the preliminary allocation of the Micro Precision and PGH purchase price

8

Table of Contents

in connection with finalizing the valuation of each businesses' tradename and the time period the tradename will be utilized by the Company post-acquisition. The opening balance sheet has been adjusted to reflect these changes, which included an increase to goodwill of \$1.8 million and a decrease to intangible assets of \$1.8 million. The amortization expense recognized in historical periods was not materially impacted as a result of the adjustments to the purchase price allocation. The aggregate purchase price allocation resulted in goodwill of \$26.7 million (\$24.6 million of tax deductible goodwill), other intangible assets of \$23.3 million, property, plant and equipment of \$36.7 million and other net assets of \$25.3 million.

During fiscal 2014, the Company also established a new French sales office in its Water Management platform to expand its European water and wastewater market presence via a joint venture between the Company and six external sales associates. The Company contributed an immaterial amount of capital to the joint venture. As the Company has a 51% ownership stake and is deemed to have significant control over the legal entity, the financial statements of the joint venture have been wholly consolidated in accordance with ASC 810, Consolidations. The remaining 49% of the joint venture that is not owned by the Company has been presented as a non-controlling interest throughout the financial statements.

Table of Contents

3. Restructuring and Other Similar Costs

During the second quarter and six months ended September 30, 2014, 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, 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 costs during the three and six months ended September 30, 2014 and September 28, 2013 by classification of operating segment (in millions):

| | Restructuring Costs | | | |
|---|---------------------------------------|---------------------|-----------|--------------|
| | Three Months Ended September 30, 2014 | | | |
| | Process & Motion Control | Water Management | Corporate | Consolidated |
| Severance costs | \$0.6 | \$0.6 | \$— | \$1.2 |
| Lease termination and other costs | 0.2 | — | — | 0.2 |
| Total restructuring and other similar costs | \$0.8 | \$0.6 | \$— | \$1.4 |

| | Restructuring Costs | | | |
|---|-------------------------------------|---------------------|-----------|--------------|
| | Six Months Ended September 30, 2014 | | | |
| | Process & Motion Control | Water Management | Corporate | Consolidated |
| Severance costs | \$2.1 | \$1.3 | \$— | \$3.4 |
| Lease termination and other costs | 0.6 | 0.8 | — | 1.4 |
| Total restructuring and other similar costs | \$2.7 | \$2.1 | \$— | \$4.8 |

| | Restructuring Costs | | | |
|---|---------------------------------------|---------------------|-----------|--------------|
| | Three Months Ended September 28, 2013 | | | |
| | Process & Motion Control | Water Management | Corporate | Consolidated |
| Severance costs | \$0.3 | \$0.4 | \$0.4 | \$1.1 |
| Lease termination and other costs | 0.1 | — | — | 0.1 |
| Total restructuring and other similar costs | \$0.4 | \$0.4 | \$0.4 | \$1.2 |

| | Restructuring Costs | | | |
|---|-------------------------------------|---------------------|-----------|--------------|
| | Six Months Ended September 28, 2013 | | | |
| | Process & Motion Control | Water Management | Corporate | Consolidated |
| Severance costs | \$0.7 | \$1.1 | \$0.8 | \$2.6 |
| Lease termination and other costs | 0.3 | 0.1 | — | 0.4 |
| Total restructuring and other similar costs | \$1.0 | \$1.2 | \$0.8 | \$3.0 |

The following table summarizes the activity in the Company's restructuring accrual for the six months ended September 30, 2014 (in millions):

| | Severance Costs | Lease Termination and Other Costs | Total |
|---------------------------------------|-----------------|--------------------------------------|-------|
| Restructuring accrual, March 31, 2014 | \$3.7 | \$0.4 | \$4.1 |
| Charges | | | |