UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2024

☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01	**MWA**	**New York Stock Exchange**

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 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 ☒ No ☐

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 ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

There were 155,796,076 shares of common stock of the registrant outstanding at August 2, 2024.

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PART I

Item 1. FINANCIAL STATEMENTS

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2024	September 30, 2023
	(in millions, except share amounts)	
Assets:		
Cash and cash equivalents	$ 243.3	$ 160.3
Receivables, net of allowance for credit losses of $7.9 million and $7.3 million	213.2	217.1
Inventories, net	293.8	297.9
Other current assets	35.2	31.5
Total current assets	785.5	706.8
Property, plant and equipment, net	309.8	311.7
Intangible assets, net	315.4	334.0
Goodwill, net	95.5	93.7
Other noncurrent assets	62.4	58.8
Total assets	$ 1,568.6	$ 1,505.0
Liabilities and stockholders' equity:		
Current portion of long-term debt	$ 0.7	$ 0.7
Accounts payable	85.7	102.9
Other current liabilities	126.0	115.2
Total current liabilities	212.4	218.8
Long-term debt	448.2	446.7
Deferred income taxes	56.0	73.8
Other noncurrent liabilities	60.4	54.2
Total liabilities	777.0	793.5
Commitments and contingencies (Note 10.)		
Preferred stock: par value $0.01 per share; 60,000,000 shares authorized; none outstanding at June 30, 2024, and September 30, 2023	—	—
Common stock: par value $0.01 per share; 600,000,000 shares authorized; 155,765,042 and 155,871,932 shares outstanding at June 30, 2024, and September 30, 2023, respectively	1.6	1.6
Additional paid-in capital	1,208.3	1,240.4
Accumulated deficit	(375.9)	(481.8)
Accumulated other comprehensive loss	(42.4)	(48.7)
Total stockholders' equity	791.6	711.5
Total liabilities and stockholders' equity	$ 1,568.6	$ 1,505.0

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2024	2023	2024	2023
	(in millions, except per share amounts)			
Net sales	$ 356.7	$ 326.6	$ 966.5	$ 974.3
Cost of sales	225.3	226.5	618.4	683.2
Gross profit	131.4	100.1	348.1	291.1
Operating expenses:				
Selling, general and administrative	61.5	60.6	182.1	187.7
Strategic reorganization and other charges	2.9	3.9	12.7	0.9
Total operating expenses	64.4	64.5	194.8	188.6
Operating income	67.0	35.6	153.3	102.5
Other expenses:				
Pension expense other than service	1.0	0.9	3.0	2.8
Interest expense, net	2.8	3.8	9.7	11.4
Other expense	—	—	1.6	—
Total other expenses, net	3.8	4.7	14.3	14.2
Income before income taxes	63.2	30.9	139.0	88.3
Income tax expense	15.9	6.4	33.1	20.0
Net income	$ 47.3	$ 24.5	$ 105.9	$ 68.3
Net income per share:				
Basic	$ 0.30	$ 0.16	$ 0.68	$ 0.44
Diluted	$ 0.30	$ 0.16	$ 0.68	$ 0.44
Weighted average shares outstanding:				
Basic	155.7	156.4	155.9	156.2
Diluted	156.7	157.2	156.6	156.8
Dividends declared per share	$ 0.064	$ 0.061	$ 0.192	$ 0.183

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2024	2023	2024	2023
	(in millions)			
Net income	$ 47.3	$ 24.5	$ 105.9	$ 68.3
Other comprehensive income (loss), net of income tax:				
Pension actuarial amortization	0.6	0.8	1.8	2.0
Foreign currency translation	(4.4)	(4.9)	4.5	(3.0)
Total other comprehensive income (loss), net of income tax	(3.8)	(4.1)	6.3	(1.0)
Comprehensive income	$ 43.5	$ 20.4	$ 112.2	$ 67.3

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Total
			(in millions)		
Balance at September 30, 2023	$ 1.6	$ 1,240.4	$ (481.8)	$ (48.7)	$ 711.5
Net income	—	—	14.3	—	14.3
Dividends declared	—	(10.0)	—	—	(10.0)
Stock-based compensation	—	2.6	—	—	2.6
Shares retained for employee taxes	—	(1.5)	—	—	(1.5)
Common stock issued	—	0.4	—	—	0.4
Other comprehensive income, net of tax	—	—	—	13.9	13.9
Balance at December 31, 2023	$ 1.6	$ 1,231.9	$ (467.5)	$ (34.8)	$ 731.2
Net income	—	—	44.3	—	44.3
Dividends declared	—	(10.0)	—	—	(10.0)
Stock-based compensation	—	1.9	—	—	1.9
Shares retained for employee taxes	—	(0.2)	—	—	(0.2)
Common stock issued	—	1.1	—	—	1.1
Stock repurchased under buyback program	—	(10.0)	—	—	(10.0)
Other comprehensive loss, net of tax	—	—	—	(3.8)	(3.8)
Balance at March 31, 2024	$ 1.6	$ 1,214.7	$ (423.2)	$ (38.6)	$ 754.5
Net income	—	—	47.3	—	47.3
Dividends declared	—	(9.9)	—	—	(9.9)
Stock-based compensation	—	2.5	—	—	2.5
Common stock issued	—	1.0	—	—	1.0
Other comprehensive loss, net of tax	—	—	—	(3.8)	(3.8)
Balance at June 30, 2024	$ 1.6	$ 1,208.3	$ (375.9)	$ (42.4)	$ 791.6

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Total
			(in millions)		
Balance at September 30, 2022	$ 1.6	$ 1,279.6	$ (567.3)	$ (44.6)	$ 669.3
Net income	—	—	22.5	—	22.5
Dividends declared	—	(9.5)	—	—	(9.5)
Stock-based compensation	—	1.8	—	—	1.8
Shares retained for employee taxes	—	(1.5)	—	—	(1.5)
Common stock issued	—	0.6	—	—	0.6
Other comprehensive income, net of tax	—	—	—	4.6	4.6
Balance at December 31, 2022	$ 1.6	$ 1,271.0	$ (544.8)	$ (40.0)	$ 687.8
Net income	—	—	21.3	—	21.3
Dividends declared	—	(9.5)	—	—	(9.5)
Stock-based compensation	—	2.4	—	—	2.4
Common stock issued	—	0.4	—	—	0.4
Other comprehensive loss, net of tax	—	—	—	(1.5)	(1.5)
Balance at March 31, 2023	$ 1.6	$ 1,264.3	$ (523.5)	$ (41.5)	$ 700.9
Net income	—	—	24.5	—	24.5
Dividends declared	—	(9.6)	—	—	(9.6)
Stock-based compensation	—	1.7	—	—	1.7
Shares retained for employee taxes	—	(0.1)	—	—	(0.1)
Common stock issued	—	0.9	—	—	0.9
Other comprehensive loss, net of tax	—	—	—	(4.1)	(4.1)
Balance at June 30, 2023	$ 1.6	$ 1,257.2	$ (499.0)	$ (45.6)	$ 714.2

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended June 30,	
	2024	**2023**
	(in millions)	
Operating activities:		
Net income	$ 105.9	$ 68.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28.8	25.1
Amortization	20.4	21.0
Non-cash asset impairment	1.4	—
Loss (gain) on sale of assets	0.4	(3.7)
Stock-based compensation	7.0	5.9
Pension cost	3.5	3.4
Deferred income taxes	(18.6)	(6.7)
Inventory reserve provision	8.4	0.4
Other, net	0.3	0.7
Changes in assets and liabilities:		
Receivables, net	3.8	18.2
Inventories	(4.6)	(34.1)
Other assets	(6.9)	(2.0)
Accounts payable	(17.2)	(21.8)
Other current liabilities	10.7	(19.4)
Other noncurrent liabilities	6.2	(2.8)
Net cash provided by operating activities	149.5	52.5
Investing activities:		
Capital expenditures	(28.0)	(32.4)
Proceeds from sale of assets	0.1	5.1
Net cash used in investing activities	(27.9)	(27.3)
Financing activities:		
Dividends paid	(29.9)	(28.6)
Common stock repurchased under buyback program	(10.0)	—
Employee taxes related to stock-based compensation	(1.7)	(1.6)
Common stock issued	2.5	1.9
Debt issuance costs	(0.9)	—
Payments for finance lease obligations	(0.7)	(0.9)
Net cash used in financing activities	(40.7)	(29.2)
Effect of currency exchange rate changes on cash	2.1	(1.3)
Net change in cash and cash equivalents	83.0	(5.3)
Cash and cash equivalents at beginning of period	160.3	146.5
Cash and cash equivalents at end of period	$ 243.3	$ 141.2

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

	Nine months ended June 30,	
	2024	2023
	(in millions)	
Supplemental cash flow information:		
Cash paid for interest, net	$ 13.1	$ 16.5
Cash paid for income taxes, net	$ 47.3	$ 27.5

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
AS OF AND FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2024
(UNAUDITED)

Note 1. Organization and Basis of Presentation

Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in two business segments: Water Flow Solutions and Water Management Solutions. Water Flow Solutions' portfolio includes iron gate valves, specialty valves and service brass products. Water Management Solutions' portfolio includes fire hydrants, repair and installation, natural gas, metering, leak detection, and pressure management and control products and solutions. 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.

Our condensed 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 as well as in 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 do not include all information required by GAAP for complete financial statements and 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, 2023. In our opinion, all normal and recurring adjustments that we consider necessary for a fair financial statement presentation have been made. The condensed consolidated balance sheet at September 30, 2023 was derived from our audited financial statements.

Our business is seasonal as a result of the impact of cold weather conditions. Net sales and operating income historically have been lowest in the three-month periods ending December 31 and March 31 when the northern United States and most of Canada generally face weather conditions that restrict significant construction activity. Therefore, the results of operations for the three and nine months ended June 30, 2024 are not necessarily indicative of operating results that may be achieved for any other interim period or the full year.

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.

Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 requires public business entities that disclose information on their reportable segments to provide additional information on their significant expense categories and "other segment items," which represent the difference between segment revenue less significant segment expense and a segment's measure of profit or loss. A description of "other segment items" is also required. Further, certain segment related disclosures that were limited to annual disclosure are now required for interim periods. Finally, public business entities are required to disclose the title and position of their Chief Operating Decision Maker ("CODM") and explain how the CODM uses the reported measures of profit or loss to assess segment performance. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Upon adoption, ASU 2023-07 should be applied retrospectively to all prior periods. We do not expect ASU 2023-07 to have a material impact on our financial statements and related disclosures.

In December 2023, the FASB issued ASU No 2023-09 "Income Taxes (Topic 740): Improvements to Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 requires public business entities to disclose a tabular rate reconciliation utilizing percentages and reporting currency amounts in specific categories with certain reconciling items at or above the specified 5% threshold to improve the transparency and comparability of disclosures. Additionally, entities are required to disclose the year-to-date amount of income taxes paid, net of refunds received, disaggregated by federal (national), state, and foreign jurisdictions. Disclosure of all individual jurisdictions where income taxes paid, net of refunds received, is 5% or more of the total is also required. This guidance is effective for fiscal years beginning after December 15, 2024 with early adoption permitted. Upon adoption, ASU 2023-09 should be applied on a prospective basis while retrospective application is permitted. We do not expect ASU 2023-09 to have a material impact on our financial statements and related disclosures.

Recent U.S. Securities and Exchange Commission ("SEC") Final Rules

In March 2024, the SEC issued final rules on the enhancement and standardization of climate-related disclosures. The rules will require registrants to disclose certain climate-related information, including Scope 1 and Scope 2 greenhouse gas emissions and other climate-related topics, in registration statements and annual reports. Additionally, the rules require disclosure in the notes to the financial statements of the effects of severe weather events and other natural conditions, subject to materiality thresholds. The rules will become effective on a phased-in timeline in fiscal years beginning in 2025. In April 2024, due to legal challenges to the rule, the SEC voluntarily stayed implementation of the final rules. We are currently evaluating the impact the rules may have on our disclosures.

Strategic Reorganization and Other Charges

During the nine months ended June 30, 2024, we recorded approximately $12.7 million in Strategic reorganization and other charges, consisting of amounts associated with our leadership transition, certain transaction-related expenses, cybersecurity incidents expense, $1.4 million of non-cash impairment of assets in our Water Management Solutions segment, and severance. During the nine months ended June 30, 2023, we recorded certain amounts related to severance and transaction-related expenses partially offset by a $4.0 million gain, before tax, on the sale of our Aurora, Illinois facility. Activity in accrued strategic reorganization and other charges, reported as part of Other current liabilities, is presented below:

	Nine months ended June 30,	
	2024	2023
	(in millions)	
Beginning balance	$ 6.6	$ 3.3
Amounts accrued	12.7	0.9
Amounts paid and other adjustments, net	(15.2)	(2.0)
Ending balance	$ 4.1	$ 2.2

New Markets Tax Credit Program

On December 22, 2020, we entered into a financing transaction with Wells Fargo Community Investment Holdings, LLC ("Wells Fargo") related to our brass foundry construction project in Decatur, Illinois under a qualified New Markets Tax Credit program ("NMTC"). The NMTC is a federal program intended to encourage capital investment in qualified lower income communities. Under the NMTC, investors claim federal income tax credits over a period of seven years in connection with qualified investments in the equity of community development entities ("CDE"s), which are privately managed investment institutions that are certified to make qualified low-income community investments, such as in our foundry project.

Under the NMTC, Wells Fargo contributed capital of $4.8 million to an investment fund and we loaned $12.2 million to the fund. Wells Fargo is entitled to the associated tax credits, which are subject to 100% recapture if we do not comply with various regulations and contractual provisions surrounding the foundry project. We have indemnified Wells Fargo for any loss or recapture of tax credits related to the transaction until the seven-year period elapses. We do not anticipate any credit recaptures will be required in connection with this arrangement.

The investment fund contributed $16.5 million cash for a 99.99% stake in a joint venture ("Sub-CDE") with a CDE. The Sub-CDE then loaned $16.2 million to us, with the use of the loan proceeds restricted to foundry project expenditures. This transaction also includes a put/call provision under which we may be obligated or entitled to repurchase Wells Fargo's interest in the investment fund. We believe that Wells Fargo will exercise its put option in December 2027 for nominal consideration, resulting in our becoming the sole owner of the investment fund, cancelling the related loans, and recognizing an estimated gain of $3.9 million.

We determined that the investment fund and the Sub-CDE are variable interest entities ("VIEs") and that we are the primary beneficiary of the VIEs. The ongoing activities of the VIEs, namely collecting and remitting interest and fees and administering NMTC compliance, were contemplated in the initial design of the transaction and are not expected to significantly affect economic performance throughout the life of the VIEs. Additionally, we are obligated to deliver tax benefits and provide various other guarantees to Wells Fargo and to absorb the losses of the VIEs. Wells Fargo does not have a material interest in the underlying economics of the project. Consequently, we have included the financial statements of the VIEs in our consolidated financial statements.

Intercompany transactions between us and the VIEs have been eliminated in consolidation. Wells Fargo's contribution to the investment fund is consolidated in our financial statements within Other noncurrent liabilities as a result of its redemption features.

Direct costs associated with Wells Fargo's capital contribution were netted against the recorded proceeds, resulting in a net cash contribution of $3.9 million. Other direct costs associated with the transaction were capitalized and are being recognized as interest expense over the seven-year tax credit period. Incremental costs to maintain the structure during the compliance period were expensed as incurred and were immaterial to the financial statements.

Note 2. Revenue from Contracts with Customers

We recognize revenue when control of promised products or services is transferred to our customers, in amounts that reflect the consideration to which we expect to be entitled in exchange for those products or services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, the payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We determine the appropriate revenue recognition for our contracts with customers by analyzing the type, terms and conditions of each contract or arrangement with a customer.

Disaggregation of Revenue

Refer to Note 8. for disaggregation of our revenues from contracts with customers by reportable segment and by geographical region, which we believe best depicts how the nature, amount, timing and certainty of our revenue and cash flows are affected by economic factors. Geographical region represents the location of the customer.

Contract Asset and Liability Balances

Differences in the timing of revenue recognition, billing and cash collection result in customer receivables, advance payments and billings in excess of revenue recognized. Customer receivables include amounts billed and currently due from customers as well as unbilled amounts (i.e., contract assets). Amounts are billed in accordance with contractual terms and unbilled amounts arise when the timing of billing differs from the timing of revenue recognized.

Advance payments and billings in excess of revenue are recognized and recorded as deferred revenue and are classified as current or noncurrent based on the timing of when we expect to recognize revenue. We include current deferred revenue and noncurrent deferred revenue within Other current liabilities and Other noncurrent liabilities, respectively, in the accompanying condensed consolidated balance sheets. Refer to Note 7. for current and noncurrent amounts. Deferred revenue represents contract liabilities and is recorded when customers remit cash payments in advance of our satisfaction of performance obligations pursuant to contractual arrangements. Contract liabilities are reversed when the performance obligation is satisfied and revenue is recognized. Deferred revenue primarily consists of amounts related to monitoring, leak detection, software and hosting services. During the three and nine months ended June 30, 2024, approximately $0.8 million and $5.0 million, respectively of deferred revenue was recognized into revenue that was previously included in deferred revenue. During the three and nine months ended June 30, 2024, approximately $3.0 million and $6.9 million of additional deferred revenue was recorded.

The table below represents the balances of our customer receivables and deferred revenue:

	June 30, 2024	September 30, 2023
	(in millions)	
Billed receivables	$ 216.4	$ 218.1
Unbilled receivables	4.7	6.3
Gross customer receivables	221.1	224.4
Allowance for credit losses	(7.9)	(7.3)
Receivables, net	$ 213.2	$ 217.1
Deferred revenue	$ 11.1	$ 9.2

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Our performance obligations are satisfied at a point in time for sales of equipment and products or over time for our software hosting and leak detection monitoring services. Performance obligations are supported by customer contracts which provide frameworks for the nature of the distinct products or services. The transaction price is adjusted for our estimate of variable consideration which may include discounts and rebates. To estimate variable consideration, we apply the expected value or the most likely amount method, based on whichever method most appropriately predicts the amount of consideration we expect to receive. The method applied is typically based on historical experience and known trends. We constrain the amounts of variable consideration that are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur or when uncertainties around the variable consideration are resolved.

We exclude from the measurement of the transaction price all taxes assessed by a governmental authority.

We do not adjust the transaction price of a contract for the effects of a significant financing component if, at the inception of the contract, we expect that the period between when we transfer a product or service to a customer and when a customer remits payment will be one year or less.

Revenue for the sale of our products is recognized when the obligations of the terms of our contract are satisfied, which is when the customer is able to direct the use of and obtain substantially all of the benefits from the product, which generally occurs upon shipment when control of the product transfers to the customer.

We offer warranties to our customers in the form of assurance-type warranties, which provide assurance that the products provided will function as intended and comply with any agreed-upon specifications. These warranties cannot be purchased separately from our products. On limited products, we offer extended warranties which may be purchased separately.

Costs to Obtain or Fulfill a Contract

Shipping and handling costs associated with freight activities after the customer has obtained control of a product are accounted for as fulfillment costs and are expensed to Cost of sales within our condensed consolidated statement of operations at the time the related revenue is recognized.

We incur certain incremental costs to obtain a contract, which primarily relate to incremental sales commissions. Our sales commissions are paid based on a combination of orders and shipments, and we reserve the right to claw back any commissions in case of product returns, cancellations or lost collections. As the expected benefit associated with these incremental costs is generally one year or less based on the nature of the product sold and benefits received, we have applied the practical expedient to expense them as incurred and therefore do not capitalize the related costs.

Note 3. Income Taxes

The reconciliation between the U.S. federal statutory income tax rate and the effective income tax rate is presented below:

	Three months ended June 30,				Nine months ended June 30,			
	2024		2023		2024		2023	
U.S. federal statutory income tax rate	21.0	%	21.0	%	21.0	%	21.0	%
Adjustments to reconcile to the effective tax rate:								
State income taxes, net of federal benefit	3.5		3.2		3.5		3.2	
Excess tax deficit related to stock-based compensation	—		—		—		0.2	
Tax credits	(1.8)		(3.5)		(1.8)		(2.8)	
Global Intangible Low-Taxed Income	(0.1)		1.1		(0.1)		1.1	
Foreign income tax rate differential	(0.4)		(2.2)		(0.4)		(2.2)	
Nondeductible compensation	1.0		0.9		1.0		0.9	
Uncertain tax positions	0.4		—		(0.7)		—	
Valuation allowances	0.7		—		0.4		—	
Other	0.9		0.2		0.9		1.3	
Effective income tax rate	25.2	%	20.7	%	23.8	%	22.7	%

At June 30, 2024 and September 30, 2023, the gross liabilities for unrecognized income tax benefits were $4.1 million and $5.0 million, respectively, and are included in Other noncurrent liabilities.

During the nine months ended June 30, 2024, we recorded $1.6 million in income tax benefits due to the release of an uncertain tax position that expired on December 31, 2023. No income tax benefits or expenses were recorded during the three months ended June 30, 2024 related to this uncertain tax position.

Note 4. Borrowing Arrangements

The components of our long-term debt are as follows:

	June 30, 2024	September 30, 2023
	(in millions)	
4.0% Senior Notes	$ 450.0	$ 450.0
Finance leases	2.3	1.3
Total debt	452.3	451.3
Less: deferred financing costs	3.4	3.9
Less: current portion of long-term debt	0.7	0.7
Long-term debt	$ 448.2	$ 446.7

ABL Agreement. Our asset-based lending agreement, as amended, ("ABL"), is provided by a syndicate of banking institutions and consists of a revolving credit facility for up to $175.0 million in borrowings that matures the earlier of (a) March 16, 2029, which is ninety-one days prior to the stated maturity date of our 4.0% Senior Notes if the Notes are still outstanding on that date or (b) March 28, 2029. The ABL includes the ability to borrow up to $25.0 million of swing line loans and up to $60.0 million of letters of credit. The ABL permits us to increase the size of the credit facility by an additional $150.0 million in certain circumstances subject to adequate borrowing base availability.

In December 2023, we obtained a waiver under our ABL ("ABL Waiver") to provide for additional time associated with certain reporting requirements that were delayed as a result of the cybersecurity incident announced on October 28, 2023. Under the ABL Waiver, the maximum aggregate amount of borrowings and other credit extensions under the ABL was limited to $50.0 million at any time outstanding until all of the required reports were delivered. During our first fiscal quarter of 2024, we delivered the required reports, and on February 6, 2024, the ABL Waiver was terminated. Accordingly, we are no longer subject to any additional restrictions or borrowing limitations under the ABL, including the $50.0 million temporary limit on credit extensions.

On March 28, 2024, we amended our ABL to, among other things, (i) extend the maturity date from July 29, 2025 to the earlier of (a) March 28, 2029 and (b) 91 days prior to the stated maturity date of the Company's 4.0% Senior Notes due June 15, 2029 (as may be extended from time to time in accordance with the Indenture governing the notes) if the 4.0% Senior Notes are then outstanding, (ii) decrease the grid-based interest rate margins by approximately 50 basis points to 150 basis points for Secured Overnight Financing Rate ("SOFR") loans and 50 basis points for base rate loans when average availability is greater than 50% of the aggregate revolving commitments, and to 175 basis points for SOFR loans and 75 basis points for base rate loans, when average availability is less than or equal to 50% of the aggregate revolving credit commitments and (iii) replace the previously fixed 37.5 basis point unused commitment fee with a grid-based, quarterly unused commitment fee equal to (a) 37.5 basis points if average daily outstanding credit extensions for such quarter under the ABL ("Total Outstandings") are less than or equal to 50% of the aggregate revolving credit commitments or (b) 25.0 basis points if Total Outstandings for such quarter are greater than or equal to 50% of the aggregate revolving credit commitments. We incurred approximately $0.9 million in debt issuance costs in connection with the ABL amendment which were capitalized and will be amortized over the term of the ABL.

Borrowings under the ABL bear interest at a floating rate equal to SOFR plus an adjustment of 10 basis points plus an applicable margin range of 150 to 175 basis points, or a base rate, as defined in the ABL, plus an applicable margin range of 50 to 75 basis points. At June 30, 2024, the applicable margin for SOFR-based loans was 150 basis points and for base rate loans was 50 basis points.

The ABL is subject to mandatory prepayments if total outstanding borrowings under the ABL are greater than the aggregate commitments under the revolving credit facility or if we dispose of overdue accounts receivable in certain circumstances. The borrowing base under the ABL is equal to the sum of (a) 85% of the value of eligible accounts receivable and (b) the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less certain reserves. Prepayments can be made at any time without penalty.

Substantially all of our United States subsidiaries are borrowers under the ABL and are jointly and severally liable for outstanding borrowings. Our obligations under the ABL are secured by a first-priority perfected lien on all of our United States inventory, accounts receivable, certain cash balances and other supporting assets.

The ABL includes a commitment fee for any unused borrowing capacity of 37.5 basis points per annum when the unused capacity is above 50% of the credit commitments, with a step down to 25.0 basis points per annum when unused capacity is less than or equal to 50% of the credit commitments. At June 30, 2024, the commitment fee was 37.5 basis points.

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. Excess availability based on June 30, 2024 data was $162.6 million, as reduced by $12.2 million of outstanding letters of credit and $0.2 million of accrued fees and expenses.

4.0% Senior Unsecured Notes. On May 28, 2021, we privately issued $450.0 million of 4.0% Senior Unsecured Notes ("4.0% Senior Notes"), which mature on June 15, 2029, and bear interest at 4.0%, paid semi-annually in June and December. We capitalized $5.5 million of financing costs which are being amortized over the term of the 4.0% Senior Notes using the effective interest method. Substantially all of our United States subsidiaries guarantee the 4.0% Senior Notes, which are subordinate to borrowings under our ABL. Based on quoted market prices, which is a Level 1 measurement, the outstanding 4.0% Senior Notes had a fair value of $411.3 million at June 30, 2024.

An indenture governing the 4.0% Senior Notes ("Indenture") contains customary covenants and events of default, including covenants that limit our ability to incur certain debt and liens. There are no financial maintenance covenants associated with the Indenture. We believe we were in compliance with these covenants at June 30, 2024.

We may redeem some or all of the 4.0% Senior Notes at any time after June 15, 2024, at specified redemption prices. Upon a Change of Control, as defined in the Indenture, we could be required to offer to purchase the 4.0% Senior Notes at a price equal to 101% of the outstanding principal amount if there is a Ratings Decline (as defined in the Indenture).

Note 5. Retirement Plan

We have a defined benefit plan ("Pension Plan") that we fund in accordance with its requirements in amounts sufficient to satisfy the minimum funding requirements of applicable laws. The Pension Plan provides benefits based on years of service and compensation or at stated amounts for each year of service with an annual measurement date of September 30.

The components of net periodic cost for our Pension Plan are presented below:

	Three months ended June 30,		Nine months ended June 30,	
	2024	2023	2024	2023
	(in millions)			
Service cost	$ 0.2	$ 0.2	$ 0.5	$ 0.6
Pension expense other than service:				
Interest cost	3.5	3.4	10.5	10.4
Expected return on plan assets	(3.3)	(3.5)	(9.9)	(10.4)
Amortization of actuarial net loss	0.8	1.0	2.4	2.8
Pension expense other than service	1.0	0.9	3.0	2.8
Net periodic cost	$ 1.2	$ 1.1	$ 3.5	$ 3.4

The amortization of actuarial losses, net of income tax, is recorded as a component of Other comprehensive income. For each of the three months ended June 30, 2024 and 2023, the amortization of actuarial net loss is shown net of income tax of $0.2 million in the condensed consolidated statements of comprehensive income. For the nine months ended June 30, 2024 and 2023, the amortization of actuarial loss is shown net of income tax of $0.6 million and $0.8 million respectively, in the condensed consolidated statements of comprehensive income.

Note 6. Stock-based Compensation Plans

We grant various forms of stock-based compensation, including market-based restricted stock units ("MRSUs"), restricted stock units, stock options and performance-based restricted stock units ("PRSUs") under our Amended and Restated 2006 Mueller Water Products, Inc. Stock Incentive Plan (the "2006 Stock Plan"), Phantom Plan instruments under our Mueller Water Products, Inc. 2012 Phantom Plan, and Employee stock purchase plan instruments under our 2006 Employee Stock Purchase Plan. Grants issued during the nine months ended June 30, 2024 are as follows:

	Number granted	Weighted average grant date fair value per instrument	Total grant date fair value (in millions)
Quarter ended December 31, 2023			
MRSUs	136,983	$ 18.11	$ 2.5
PRSUs	136,983	13.22	1.8
Restricted stock units	161,943	13.27	2.1
Phantom Plan instruments	230,523	13.22	3.0
Non-qualified stock options	457,356	3.96	1.8
Employee stock purchase plan instruments	31,139	$ 3.48	0.1
Total - Quarter ended December 31, 2023			$ 11.3
Quarter ended March 31, 2024			
Restricted stock units	81,136	$ 15.59	$ 1.3
Phantom Plan instruments	2,544	15.71	—
Employee stock purchase plan instruments	35,998	$ 2.62	0.1
Total - Quarter ended March 31, 2024			1.4
Quarter ended June 30, 2024			
Restricted stock units	55,572	$ 18.44	$ 1.0
Phantom Plan instruments	3,183	15.70	—
Employee stock purchase plan instruments	31,659	$ 3.01	0.1
Total - Quarter ended June 30, 2024			1.1
Total - Year to date ended June 30, 2024			$ 13.8

An MRSU award represents a target number of units that may be paid out at the end of a three-year award cycle based on a calculation of our relative total shareholder return ("TSR") performance as compared with the TSR of a selected peer group. Settlements, in our common shares, will range from zero to two times the number of MRSUs granted, depending on our TSR performance relative to that of the peer group.

Compensation expense attributed to MRSUs is based on the fair value of the awards on their respective grant dates, as determined using a Monte Carlo model. For these awards, compensation expense is recognized even if the awards are not earned or vested. The assumptions used to determine the grant date fair value are indicated below for awards granted to date during the current fiscal year.

	November 28, 2023
Variables used in determining grant date fair value:	
Dividend yield	2.00%
Risk-free rate	4.50%
Expected term (in years)	2.84

The expected dividend yield is based on our estimated annual dividend and our stock price history at the grant date. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield in effect at the grant date with a term equal to the expected term. The expected term represents the average period of time the units are expected to be outstanding.

At June 30, 2024, the outstanding Phantom Plan instruments had a fair value of $17.92 per instrument and our liability for Phantom Plan instruments was $4.1 million and is included within Other current liabilities for amounts related to instruments scheduled to vest in twelve months or less and Other noncurrent liabilities for amounts related to instruments scheduled to vest beyond twelve months.

Stock options generally vest ratably over three years on each anniversary date. Compensation expense attributed to stock options is based on the fair value of the awards on their respective grant dates, using a Black-Scholes model. The assumptions used to determine the grant date fair value are indicated below for awards granted to date during the current fiscal year.

	November 28, 2023
Variables used in determining grant date fair value:	
Dividend yield	1.94%
Risk-free rate	4.33%
Expected term (in years)	6.00

The expected dividend yield is based on our estimated annual dividend and our stock price history at the grant date. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield in effect at the grant date with a term equal to the expected term. The expected term represents the average period of time the options are expected to be outstanding.

A PRSU award consists of a target number of units that may be paid out at the end of a three-year award cycle. Settlements, in our common shares, will range from zero to two times the number of PRSUs granted, depending on our financial performance relative to the targets.

Restricted stock units generally vest ratably over the life of the award, usually three years, on each anniversary date of the original grant. Compensation expense for restricted stock units is recognized between the grant date and the vesting date (or the date on which a participant becomes retirement-eligible under the terms of the 2006 Stock Plan, if sooner) on a straight-line basis for each tranche of each award. Fair values of restricted stock units are determined using the closing price of our common stock on the respective grant date.

Employee stock purchase plan instruments are shares of our common stock purchased by employees under the Mueller Water Products Inc. 2006 Employee Stock Purchase Plan ("ESPP"). Generally, all full-time, active employees are eligible to participate in the ESPP, subject to certain restrictions. Employee purchases are funded through payroll deductions, and excess payroll withholdings are returned to the employee. The price for the shares purchased under the ESPP is 85% of the lower of the closing price on the first day or the last day of the offering period.

We issued 168,897 shares of common stock to settle PRSUs vested during the nine months ended June 30, 2024; no shares of common stock were issued to settle PRSUs during the three months ended June 30, 2024. Additionally, we issued 696 and 260,110 shares of common stock to settle restricted stock units vested during the three and nine months ended June 30, 2024, respectively. Finally, we issued 51,708 and 122,258 shares of common stock to settle stock options exercised during the three and nine months ended June 30, 2024, respectively. Common shares totaling 249 and 120,162 were surrendered to us to pay the applicable tax withholding obligations of equity award participants for the three and nine months ended June 30, 2024, respectively.

Operating income included stock-based compensation expense of $3.7 million and $2.7 million during the three months ended June 30, 2024 and 2023, respectively. Operating income included stock-based compensation of $10.1 million and $8.8 million during the nine months ended June 30, 2024 and 2023, respectively. At June 30, 2024, there was approximately $12.3 million of unrecognized compensation expense related to stock-based compensation arrangements, which will be expensed through May 2027.

We excluded 24,636 and 249,933 stock-based compensation instruments from the calculations of diluted earnings per share in the three months ended June 30, 2024 and 2023, respectively, and 520,420 and 1,156,428 for the nine months ended June 30, 2024 and 2023, respectively, since their inclusion would have been antidilutive.

Note 7. Supplemental Balance Sheet Information

Selected supplemental asset information is presented below:

	June 30, 2024	September 30, 2023
	(in millions)	
Inventories:		
Purchased components and raw materials	$ 165.8	$ 176.9
Work in process, net	61.3	60.0
Finished goods, net	66.7	61.0
Inventories, net	$ 293.8	$ 297.9
Other current assets:		
Prepaid expenses	$ 16.2	$ 17.8
Non-trade receivables	2.9	1.7
Maintenance and repair supplies and tooling	5.2	4.1
Goods to be returned	4.6	3.9
Income taxes	0.8	0.8
Workers' compensation reimbursement receivable	1.8	2.2
Other current assets	3.7	1.0
Total other current assets	$ 35.2	$ 31.5
Property, plant and equipment:		
Land	$ 6.4	$ 6.4
Buildings	121.2	117.2
Machinery and equipment	535.4	525.8
Construction in progress	46.5	36.9
Total property, plant and equipment	709.5	686.3
Accumulated depreciation	(399.7)	(374.6)
Property, plant and equipment, net	$ 309.8	$ 311.7
Other noncurrent assets:		
Operating lease right-of-use assets	$ 28.0	$ 23.6
Maintenance and repair supplies and tooling	20.9	21.1
Workers' compensation reimbursement receivable	4.6	2.4
Pension asset	5.5	6.6
Note receivable	1.8	1.8
Deferred financing fees	1.4	0.7
Other noncurrent assets	0.2	2.6
Total other noncurrent assets	$ 62.4	$ 58.8

Selected supplemental liability information is presented below:

	June 30, 2024	September 30, 2023
	(in millions)	
Other current liabilities:		
Compensation and benefits	$ 47.3	$ 33.8
Customer rebates	14.6	14.6
Income taxes payable	15.7	8.5
Warranty accrual	8.8	8.6
Deferred revenue	5.1	9.2
Returned goods accrual	8.3	6.7
Taxes other than income taxes	2.9	2.0
Operating lease liabilities	5.5	4.9
Workers' compensation accrual	4.4	4.0
Strategic reorganization and other charges liabilities	4.1	6.6
Interest payable	0.8	5.3
Other current liabilities	8.5	11.0
Total other current liabilities	$ 126.0	$ 115.2
Other noncurrent liabilities:		
Operating lease liabilities	$ 23.6	$ 19.8
Warranty accrual	4.8	7.1
Transition tax liability	1.7	3.1
Uncertain tax position liability	4.1	5.0
NMTC liability	3.9	3.9
Workers' compensation accrual	6.0	5.9
Asset retirement obligation	4.2	4.2
Deferred revenue	6.0	—
Deferred development grant	2.5	2.5
Other noncurrent liabilities	3.6	2.7
Total other noncurrent liabilities	$ 60.4	$ 54.2

Goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis on September 1 of each fiscal year or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The following table summarizes information concerning our goodwill, all of which is within our Water Management Solutions segment, during the nine months ended June 30, 2024, in millions:

Balance at September 30, 2023:	
Goodwill	$ 817.8
Accumulated impairment	(724.1)
Goodwill, net	93.7
Activity during the nine months ended June 30, 2024:	
Change in foreign currency exchange rates	1.8
Balance at June 30, 2024	$ 95.5

Note 8. Segment Information

We have two reportable segments, Water Flow Solutions and Water Management Solutions. Water Flow Solutions' portfolio includes iron gate valves, specialty valves and service brass products. Water Management Solutions' portfolio includes fire hydrants, repair and installation, natural gas, metering, leak detection, and pressure management and control products and solutions. Summarized financial information for our segments is presented below:

	Three months ended June 30,		Nine months ended June 30,	
	2024	2023	2024	2023
	(in millions)			
Net revenue, excluding intercompany:				
Water Flow Solutions	$ 208.1	$ 150.1	$ 555.2	$ 472.9
Water Management Solutions	148.6	176.5	411.3	501.4
	$ 356.7	$ 326.6	$ 966.5	$ 974.3
Operating income (loss):				
Water Flow Solutions	$ 57.8	$ 12.6	$ 137.6	$ 52.0
Water Management Solutions	25.5	39.0	69.6	90.3
Corporate	(16.3)	(16.0)	(53.9)	(39.8)
	$ 67.0	$ 35.6	$ 153.3	$ 102.5
Depreciation and amortization:				
Water Flow Solutions	$ 9.1	$ 8.2	$ 28.2	$ 23.7
Water Management Solutions	7.1	7.6	20.8	22.3
Corporate	0.1	—	0.2	0.1
	$ 16.3	$ 15.8	$ 49.2	$ 46.1
Strategic reorganization and other charges (benefits):				
Water Flow Solutions	$ —	$ 0.1	$ 0.2	$ 0.1
Water Management Solutions	1.4	1.0	1.4	1.2
Corporate	1.5	2.8	11.1	(0.4)
	$ 2.9	$ 3.9	$ 12.7	$ 0.9
Capital expenditures:				
Water Flow Solutions	$ 6.2	$ 7.5	$ 16.1	$ 23.1
Water Management Solutions	6.0	4.4	11.9	9.3
Corporate	—	—	—	—
	$ 12.2	$ 11.9	$ 28.0	$ 32.4
Water Flow Solutions disaggregated revenue:				
Central	$ 55.2	$ 43.0	$ 148.7	$ 131.0
Northeast	34.4	31.7	100.1	93.4
Southeast	45.2	24.8	135.5	86.8
West	54.9	37.8	133.8	123.4
United States	189.7	137.3	518.1	434.6
Canada	16.1	9.8	30.2	29.2
Other international locations	2.3	3.0	6.9	9.1
	$ 208.1	$ 150.1	$ 555.2	$ 472.9
Water Management Solutions disaggregated revenue:				
Central	$ 39.4	$ 47.4	$ 110.0	$ 133.2
Northeast	31.3	44.3	90.8	116.1
Southeast	34.7	37.1	100.2	109.8
West	28.5	31.2	72.3	93.0
United States	133.9	160.0	373.3	452.1
Canada	10.8	10.0	23.9	29.9
Other international locations	3.9	6.5	14.1	19.4
	$ 148.6	$ 176.5	$ 411.3	$ 501.4

Note 9. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is as follows:

	Pension actuarial amortization, net of income tax	Foreign currency translation, net of income tax	Total
		(in millions)	
Balance at September 30, 2023	$ (28.5)	$ (20.2)	$ (48.7)
Current period other comprehensive income	1.8	4.5	6.3
Balance at June 30, 2024	$ (26.7)	$ (15.7)	$ (42.4)

For the nine months ended June 30, 2024, pension actuarial amortization included in the condensed consolidated statements of comprehensive income as a component of pension expense other than service was $2.4 million, net of income tax of $0.6 million. Refer to Note 5. Retirement Plans for further information. For the nine months ended June 30, 2024, foreign currency translation included in the condensed consolidated statements of comprehensive income was $4.5 million, net of no income tax.

Note 10. Commitments and Contingencies

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. We provide for costs relating to these matters when a loss is probable and the amount is reasonably estimable. Legal and administrative costs related to these matters are expensed as incurred. 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 materially adverse effect on our financial position, results of operations, cash flows or liquidity.

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 International plc, now Johnson Controls International plc ("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.

The purchaser of U.S. Pipe has been identified as a "potentially responsible party" ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act 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 for the site will depend on many factors that have not yet been determined, including the determination of the Environmental Protection Agency's remediation costs, the number and financial viability of the other PRPs (there are four other PRPs currently) and the determination of the final allocation of the costs among the PRPs. Since the amounts of such costs cannot be reasonably estimated at this time, no amounts have been accrued for this matter at June 30, 2024.

Indemnifications. We are a party to contracts in which it is common for us to agree to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by gross negligence or willful misconduct. We cannot estimate the potential amount of future payments under these indemnities until events arise that would trigger a liability under the indemnities.

Additionally, in connection with the sale of assets and the divestiture of businesses, such as the divestitures of U.S. Pipe and Anvil, we may agree to indemnify buyers and related parties for certain losses or liabilities incurred by these parties with respect to: (i) the representations and warranties made by us to these parties in connection with the sale and (ii) liabilities related to the pre-closing operations of the assets or business sold. Indemnities related to pre-closing operations generally include certain environmental and tax liabilities and other liabilities not assumed by these parties in the transaction.

Indemnities related to the pre-closing operations of sold assets or businesses normally do not represent additional liabilities to us, but simply serve to protect these parties from potential liability associated with our obligations existing at the time of the sale. We have accrued for those pre-closing obligations that are considered probable and reasonably estimable. Should circumstances change, increasing the likelihood of payments related to a specific indemnity, we will accrue a liability when future payment is probable and the amount is reasonably estimable.

Other Matters. We offer warranties on many of our products, including products related to our metrology business line, which carry an extended warranty in many instances. Our products are often utilized in harsh environmental conditions and are exposed to water and other exogenous factors such as flooding and other environmental conditions that are beyond our control. We periodically monitor and analyze our warranty experience and costs. Accordingly, should specific events or issues occur, additional warranty accruals may also be made relating to those issues or events. Factors considered in our analyses include warranty terms, specific claim situations, general incurred and projected failure rates, the nature of product failures, product and labor costs, and general business conditions.

We are party to a number of lawsuits arising in the ordinary course of business, including product liability cases for products manufactured by us or third parties. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of such other litigation is not likely to have a materially adverse effect on our financial position, results of operations, cash flows or liquidity.

Note 11. Subsequent Events

On July 24, 2024, our Board of Directors declared a dividend of $0.064 per share on our common stock, payable on or about August 20, 2024 to stockholders of record at the close of business on August 9, 2024.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto that appear elsewhere in this report. This report contains certain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws. All statements that address activities, events or developments that the Company intends, expects, plans, projects, believes or anticipates will or may occur in the future are forward-looking statements, including, without limitation, statements regarding outlooks, projections, forecasts, expectations, commitments, trend descriptions and the ability to capitalize on trends, value creation, Board of Directors and committee composition plans, long-term strategies and the execution or acceleration thereof, operational improvements, inventory positions, the benefits of capital investments, financial or operating performance including improving sales growth and driving increased margins, capital allocation and growth strategy plans, the Company's product portfolio positioning and the demand for the Company's products. Forward-looking statements are based on certain assumptions and assessments made by the Company in light of the Company's experience and perception of historical trends, current conditions and expected future developments.

Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including, without limitation, legal, reputational, audit and financial risks resulting from previously reported cybersecurity incidents and possible future cybersecurity incidents, the effectiveness of the Company's business continuity plans related thereto, and the Company's ability to recover under its cybersecurity insurance policies; logistical challenges and supply chain disruptions, geopolitical conditions, including the Israel-Hamas war, public health crises, or other events; inventory and in-stock positions of our distributors and end customers; an inability to realize the anticipated benefits from our operational initiatives, including our large capital investments in Chattanooga and Kimball, Tennessee, and Decatur, Illinois, plant closures, and reorganization and related strategic realignment activities; an inability to attract or retain a skilled and diverse workforce, including executive officers, increased competition related to the workforce and labor markets; an inability to protect the Company's information systems against further service interruption, misappropriation of data or breaches of security; failure to comply with personal data protection and privacy laws; cyclical and changing demand in core markets such as municipal spending, residential construction, and natural gas distribution; government monetary or fiscal policies; the impact of adverse weather conditions; the impact of manufacturing and product performance; the impact of wage, commodity and materials price inflation; foreign exchange rate fluctuations; the impact of higher interest rates; the impact of warranty charges and claims, and related accommodations; the strength of our brands and reputation; an inability to successfully resolve significant legal proceedings or government investigations; compliance with environmental, trade and anti-corruption laws and regulations; climate change and legal or regulatory responses thereto; changing regulatory, trade and tariff conditions; the failure to integrate and/or realize any of the anticipated benefits of acquisitions or divestitures; an inability to achieve some or all of our Environmental, Social and Governance goals; and other factors that are described in the section entitled "RISK FACTORS" in Item 1A of the Company's most recent Annual Report on Form 10-K and later filings on Form 10-Q, as applicable.

Forward-looking statements do not guarantee future performance and are only as of the date they are made. The Company undertakes no duty to update its forward-looking statements except as required by law. Undue reliance should not be placed on any forward-looking statements. You are advised to review any further disclosures the Company makes on related subjects in subsequent Forms 10-K, 10-Q, 8-K and other reports filed with the U.S. Securities and Exchange Commission.

Overview

Business

We have two reportable segments: Water Flow Solutions and Water Management Solutions. Water Flow Solutions' portfolio includes iron gate valves, specialty valves and service brass products. Water Flow Solutions represented approximately 50% of our fiscal 2023 net sales. Water Management Solutions' portfolio includes fire hydrants, repair and installation, natural gas, metering, leak detection, and pressure management and control products and solutions. Water Management Solutions represented approximately 50% of our fiscal 2023 net sales.

Approximately 60% to 65% of our 2023 net sales were associated with the repair and replacement of municipal water infrastructure, approximately 25% to 30% were related to residential construction activity and approximately 5% to 10% of net sales were related to natural gas utilities and industrial applications.

In October 2023, the Israel-Hamas war caused a temporary shutdown of our facility in Ariel, Israel. While we reopened the facility in November 2023, the war caused supply chain challenges and continues to hinder our ability to most efficiently manufacture our products. These supply chain disruptions have adversely impacted, and continue to adversely impact, our ability to optimally produce and deliver our products from our facility in Ariel, Israel. Additionally, production at this facility has been adversely impacted by limited labor availability in the region. We have made investments in recruiting and training new team members, expanding our suppliers and expediting product shipments to increase production levels and meet customer delivery times.

As announced on October 28, 2023, we identified a cybersecurity incident impacting certain internal operations and information technology systems. We believe we have contained and eliminated the unauthorized access and activity. All of our facilities are fully operational and have returned to normalized operations.

The cybersecurity incident consisted of unauthorized access and deployment of ransomware by a third party to a portion of our internal information system infrastructure. The incident caused temporary disruptions and limitations of access to portions of our business applications supporting aspects of our operations including shipping, receiving and payment functions. Operational delays and investigation and remediation costs in connection with the incident adversely impacted our results for the first quarter of 2024; however, on a fiscal year-to-date basis, there was no impact to our consolidated net sales. We have restored the impacted applications and systems. As reported on November 29, 2023, we identified a separate cybersecurity incident, which primarily related to a system that was at the end of its useful life and was already in the process of being replaced in the ordinary course of business and the replacement of this system was concluded during our second quarter 2024.

In the first quarter of fiscal 2024, we incurred approximately $1.5 million of expenses related to the cybersecurity incidents. We continue to address the impacts of the cybersecurity incidents, including making enhancements to our cybersecurity processes and analyzing the data accessed, exfiltrated or otherwise impacted in connection with the cybersecurity incidents.

We believe that our channel and customer inventory levels normalized during the first quarter of 2024 and our orders and shipments reflect a more typical operating environment compared with the high backlog environment we experienced during and after the pandemic. However, the external operating environment remains dynamic as we face uncertainties and challenges emanating from the higher interest rate environment, the Israel-Hamas war and labor inflation and availability. From a comparable perspective, in fiscal year 2023, we benefited from fulfilling an elevated backlog for certain products, which has now become more normalized as we have reduced short-cycle backlog across our portfolio, particularly with regard to iron gate valve and hydrant products. For fiscal year 2024, we anticipate that consolidated net sales will increase between 0.7% and 1.5% as compared with fiscal year 2023. For the remainder of fiscal 2024, we anticipate stable demand in the municipal repair and replacement end market driven by the aging water infrastructure despite budgetary pressures on municipalities. Additionally, we anticipate that new residential construction activity, and new lot and land development, will be constrained by the higher interest rate environment, depending on the geography, after improving relative to the challenges we experienced in fiscal 2023 where Census data indicates that total housing starts decreased 12.9% compared to 2022. In July 2024, Blue Chip Economic Indicators forecasted a 2.1% decrease in housing starts for the calendar year 2024 as compared to the calendar year 2023.

For the remainder of fiscal 2024, we anticipate that inflation will continue to modestly impact manufacturing costs, primarily due to wage inflation but also raw materials and purchased parts. Inventory for the first nine months of fiscal 2024 experienced approximately 0.1% inflation. We expect external challenges to persist during the balance of fiscal year 2024. We will continue to monitor the market and economic conditions impacting our business and take appropriate actions to address inflationary and other cost pressures such as price increases, cost containment measures and supplier management, among other things.

Results of Operations

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023

	Three months ended June 30, 2024			
	Water Flow Solutions	Water Management Solutions	Corporate	Total
	(in millions)			
Net sales	$ 208.1	$ 148.6	$ —	$ 356.7
Gross profit	$ 81.9	$ 49.5	$ —	$ 131.4
Operating expenses:				
Selling, general and administrative	24.1	22.6	14.8	61.5
Strategic reorganization and other charges	—	1.4	1.5	2.9
Total operating expenses	24.1	24.0	16.3	64.4
Operating income (loss)	$ 57.8	$ 25.5	$ (16.3)	67.0
Non-operating expenses:				
Pension expense other than service				1.0
Interest expense, net				2.8
Income before income taxes				63.2
Income tax expense				15.9
Net income				$ 47.3

	Three months ended June 30, 2023			
	Water Flow Solutions	Water Management Solutions	Corporate	Total
	(in millions)			
Net sales	$ 150.1	$ 176.5	$ —	$ 326.6
Gross profit	$ 33.6	$ 66.5	$ —	$ 100.1
Operating expenses:				
Selling, general and administrative	20.9	26.5	13.2	60.6
Strategic reorganization and other charges	0.1	1.0	2.8	3.9
Total operating expenses	21.0	27.5	16.0	64.5
Operating income (loss)	$ 12.6	$ 39.0	$ (16.0)	35.6
Non-operating expenses:				
Pension benefit other than service				0.9
Interest expense, net				3.8
Income before income taxes				30.9
Income tax expense				6.4
Net income				$ 24.5

Consolidated Analysis

Net sales for the three months ended June 30, 2024 were $356.7 million as compared with $326.6 million in the prior year period, an increase of $30.1 million or 9.2%, primarily as a result of net higher volumes and, to a lesser extent, higher pricing. The Israel-Hamas war negatively impacted Net sales by about 3%.

Gross profit for the three months ended June 30, 2024 was $131.4 million as compared with $100.1 million in the prior year period, an increase of $31.3 million or 31.3%, primarily as a result of favorable manufacturing performance, higher volumes and favorable price/cost. The Israel-Hamas war negatively impacted Gross profit by about 7%. Inflation impacted Cost of sales by approximately 2% and Gross profit by approximately 4%. As a result, Gross margin was 36.8% in the three months ended June 30, 2024 as compared with 30.6% in the prior year period.

Selling, general and administrative expenses ("SG&A") for the three months ended June 30, 2024 were $61.5 million as compared with $60.6 million in the prior year period, an increase of $0.9 million or 1.5%, primarily due to an increase in employee incentives and approximately 3% inflation, partially offset by lower salary and benefit expense associated with our restructuring activities, and lower third-party fees. SG&A as a percentage of net sales was 17.2% and 18.6% for the three months ended June 30, 2024 and June 30, 2023, respectively.

Strategic reorganization and other charges for the three months ended June 30, 2024 were $2.9 million and consisted of $1.4 million related to a non-cash asset impairment in addition to expenses associated with our leadership transition, severance and certain transaction-related expenses. Strategic reorganization and other charges for the three months ended June 30, 2023 were $3.9 million and consisted of severance and certain transaction-related expenses.

Net interest expense for the three months ended June 30, 2024 was $2.8 million as compared with $3.8 million in the prior year period, a decrease of $1.0 million or 26.3%, primarily due to higher interest income, partially offset by lower capitalized interest. The components of net interest expense are as shown below:

	Three months ended June 30,	
	2024	2023
	(in millions)	
4.0% Senior Notes	$ 4.5	$ 4.5
Deferred financing costs amortization	0.2	0.1
ABL Agreement	0.2	0.3
Capitalized interest	—	(0.3)
Other interest expense	0.2	0.1
Total interest expense	5.1	4.7
Interest income	(2.3)	(0.9)
Interest expense, net	$ 2.8	$ 3.8

The reconciliation between the U.S. federal statutory income tax rate and the effective income tax rate is presented below:

	Three months ended June 30,			
	2024		2023	
U.S. federal statutory income tax rate	21.0	%	21.0	%
Adjustments to reconcile to the effective tax rate:				
State income taxes, net of federal benefit	3.5		3.2	
Tax credits	(1.8)		(3.5)	
Global Intangible Low-Taxed Income	(0.1)		1.1	
Foreign income tax rate differential	(0.4)		(2.2)	
Nondeductible compensation	1.0		0.9	
Uncertain tax positions	0.4		—	
Valuation allowances	0.7		—	
Other	0.9		0.2	
Effective income tax rate	25.2	%	20.7	%

Segment Analysis

Water Flow Solutions

Net sales for the three months ended June 30, 2024 were $208.1 million as compared with $150.1 million in the prior year period, an increase of $58.0 million or 38.6%, primarily as a result of higher volumes and, to a lesser extent, higher pricing across most product lines.

Gross profit for the three months ended June 30, 2024 was $81.9 million as compared with $33.6 million in the prior year period, an increase of $48.3 million or 143.8%. This increase was primarily a result of favorable manufacturing performance driven by labor and overhead efficiencies, higher volumes across most product lines and, to a lesser extent, favorable price/cost. Inflation negatively impacted Cost of sales by approximately 3% and Gross profit by approximately 4%. As a result, Gross margin was 39.4% in the three months ended June 30, 2024 and 22.4% in the prior year period.

SG&A for the three months ended June 30, 2024 was $24.1 million as compared with $20.9 million in the prior year period, an increase of $3.2 million or 15.3%, primarily as a result of higher employee incentives, and inflation of approximately 3%, partially offset by lower salary and benefit expense, and third-party fees. SG&A as a percentage of net sales was 11.6% and 13.9% in the three months ended June 30, 2024 and 2023, respectively.

Water Management Solutions

Net sales for the three months ended June 30, 2024 were $148.6 million as compared with $176.5 million in the prior year period, a decrease of $27.9 million or 15.8%, as a result of lower volumes, primarily with respect to fire hydrants as well as negative impacts from the Israel-Hamas war, partially offset by higher pricing across most product lines.

Gross profit for the three months ended June 30, 2024 was $49.5 million as compared with $66.5 million in the prior year period, a decrease of $17.0 million or 25.6%. The decrease was primarily driven by lower volumes across most product lines and the impact from the Israel-Hamas war. The decrease was partially offset by favorable price/cost. Inflation negatively impacted Cost of sales by approximately 1%, and Gross profit by approximately 3%. Gross margin was 33.3% in the three months ended June 30, 2024 as compared with 37.7% in the prior year period.

SG&A for the three months ended June 30, 2024 was $22.6 million as compared with $26.5 million in the prior year period, a decrease of $3.9 million or 14.7%, primarily due to lower salary and benefit expense associated with our restructuring activities, and third-party fees. The decrease was partially offset by higher employee incentives, and approximately 4% inflation. SG&A as a percentage of net sales was 15.2% and 15.0% in the three months ended June 30, 2024 and 2023, respectively.

Corporate

SG&A for the three months ended June 30, 2024 was $14.8 million as compared with $13.2 million in the prior year period, an increase of $1.6 million or 12.1%, primarily as a result of higher employee incentive costs and third-party fees, and approximately 3% inflation. The increase was partially offset by lower salary and benefit expense as a result of restructuring activities we undertook in the third quarter of 2023.

Nine Months Ended June 30, 2024 Compared to Nine Months Ended June 30, 2023

	Nine months ended June 30, 2024			
	Water Flow Solutions	Water Management Solutions	Corporate	Total
	(in millions)			
Net sales	$ 555.2	$ 411.3	$ —	$ 966.5
Gross profit	$ 205.7	$ 142.4	$ —	$ 348.1
Operating expenses:				
Selling, general and administrative	67.9	71.4	42.8	182.1
Strategic reorganization and other charges	0.2	1.4	11.1	12.7
Total operating expenses	68.1	72.8	53.9	194.8
Operating income (loss)	$ 137.6	$ 69.6	$ (53.9)	153.3
Non-operating expenses:				
Pension expense other than service				3.0
Interest expense, net				9.7
Other expense				1.6
Income before income taxes				139.0
Income tax expense				33.1
Net income				$ 105.9

	Nine months ended June 30, 2023			
	Water Flow Solutions	Water Management Solutions	Corporate	Total
	(in millions)			
Net sales	$ 472.9	$ 501.4	$ —	$ 974.3
Gross profit	$ 117.4	$ 173.7	$ —	$ 291.1
Operating expenses:				
Selling, general and administrative	65.3	82.2	40.2	187.7
Strategic reorganization and other charges (benefits)	0.1	1.2	(0.4)	0.9
Total operating expenses	65.4	83.4	39.8	188.6
Operating income (loss)	$ 52.0	$ 90.3	$ (39.8)	102.5
Non-operating expenses:				
Pension benefit other than service				2.8
Interest expense, net				11.4
Income before income taxes				88.3
Income tax expense				20.0
Net income				$ 68.3

Consolidated Analysis

Net sales for the nine months ended June 30, 2024 were $966.5 million as compared with $974.3 million in the prior year period, a decrease of $7.8 million or 0.8%, primarily as a result of lower volumes, including a negative impact from the Israel-Hamas war of less than 2%, partially offset by higher pricing across most product lines.

Gross profit for the nine months ended June 30, 2024 was $348.1 million as compared with $291.1 million in the prior year period, an increase of $57.0 million or 19.6%, primarily as a result of favorable manufacturing performance related to labor, overhead, and logistic efficiencies, and favorable price/cost. This increase was partially offset by overall lower volumes, negative impacts from the Israel-Hamas war of less than 4% and inflation, which impacted Cost of sales by 1% and Gross profit by 2%. As a result, Gross margin increased 610 basis points to 36.0% in the nine months ended June 30, 2024 as compared with 29.9% in the prior year period.

Selling, general and administrative expenses ("SG&A") for the nine months ended June 30, 2024 were $182.1 million as compared with $187.7 million in the prior year period, a decrease of $5.6 million or 3.0%, primarily due to a decrease in salary and benefit expense associated with our restructuring activities, third-party fees, and engineering materials expense, partially offset by higher employee incentives, higher costs associated with approximately 3% inflation, and the impact of foreign currency fluctuation. SG&A as a percentage of net sales was 18.8% and 19.3% for the nine months ended June 30, 2024 and June 30, 2023, respectively.

Strategic reorganization and other charges for the nine months ended June 30, 2024 were $12.7 million, primarily consisting of $5.6 million associated with our leadership transition, certain transaction-related expenses, $1.5 million related to the cybersecurity incidents, $1.4 million related to a non-cash asset impairment, and severance. Strategic reorganization and other charges for the nine months ended June 30, 2023 were $0.9 million, which related to severance and certain transaction-related expenses partially offset by a $4.0 million gain, before tax, on the sale of our Aurora, Illinois facility.

Net interest expense for the nine months ended June 30, 2024 was $9.7 million as compared with $11.4 million in the prior year period, a decrease of $1.7 million or 14.9%, primarily due to higher interest income, partially offset by lower capitalized interest. The components of net interest expense are below:

	Nine months ended June 30,	
	2024	2023
	(in millions)	
4.0% Senior Notes	$ 13.5	$ 13.5
Deferred financing costs amortization	0.7	0.7
ABL Agreement	0.7	0.7
Capitalized interest	(0.1)	(1.8)
Other interest expense	0.5	0.4
Total interest expense	15.3	13.5
Interest income	(5.6)	(2.1)
Interest expense, net	$ 9.7	$ 11.4

Other expense for the nine months ended June 30, 2024 was $1.6 million from the release of an indemnification receivable related to an expired uncertain tax position. There was no Other expense in the nine months ended June 30, 2023.

The reconciliation between the U.S. federal statutory income tax rate and the effective income tax rate is presented below:

	Nine months ended June 30,			
	2024		2023	
U.S. federal statutory income tax rate	21.0	%	21.0	%
Adjustments to reconcile to the effective tax rate:				
State income taxes, net of federal benefit	3.5		3.2	
Excess tax deficit related to stock-based compensation	—		0.2	
Tax credits	(1.8)		(2.8)	
Global Intangible Low-Taxed Income	(0.1)		1.1	
Foreign income tax rate differential	(0.4)		(2.2)	
Nondeductible compensation	1.0		0.9	
Uncertain tax positions	(0.7)		—	
Valuation allowances	0.4		—	
Other	0.9		1.3	
Effective income tax rate	23.8	%	22.7	%

During the nine months ended June 30, 2024, we recorded $1.6 million in income tax benefits due to the release of an uncertain tax position that expired on December 31, 2023 that was related to the release of an indemnification receivable recorded in Other expense.

Segment Analysis

Water Flow Solutions

Net sales for the nine months ended June 30, 2024 were $555.2 million as compared with $472.9 million in the prior year period, an increase of $82.3 million or 17.4%, primarily as a result of higher volumes and, to a lesser extent, higher pricing across most product lines.

Gross profit for the nine months ended June 30, 2024 was $205.7 million as compared with $117.4 million in the prior year period, an increase of $88.3 million or 75.2%. Gross margin was 37.0% in the nine months ended June 30, 2024 and 24.8% in the prior year period. This increase was primarily a result of favorable manufacturing performance driven by labor, overhead, and logistic efficiencies, as well as higher volumes and favorable price/cost across most product lines. Additionally, Cost of sales and Gross profit were negatively impacted by approximately 1% and 2% inflation, respectively.

SG&A for the nine months ended June 30, 2024 was $67.9 million as compared with $65.3 million in the prior year period, an increase of $2.6 million or 4.0%, primarily as a result of increased employee incentives and approximately 3% inflation, partially offset by lower salary and benefit expense associated with our restructuring activities, and third-party fees. SG&A as a percentage of net sales was 12.2% and 13.8% in the nine months ended June 30, 2024 and 2023, respectively.

Water Management Solutions

Net sales for the nine months ended June 30, 2024 were $411.3 million as compared with $501.4 million in the prior year period, a decrease of $90.1 million or 18.0%, primarily as a result of lower volumes largely due to fire hydrants, including the impact of the Israel-Hamas war, partially offset by higher pricing across most product lines.

Gross profit for the nine months ended June 30, 2024 was $142.4 million as compared with $173.7 million in the prior year period, a decrease of $31.3 million or 18.0%. This decrease was primarily a result of inefficiencies associated with lower volumes including the impact of the Israel-Hamas war, partially offset by favorable price/cost and favorable manufacturing performance. Gross margin was 34.6% in both the nine months ended June 30, 2024 and the prior year period.

SG&A for the nine months ended June 30, 2024 was $71.4 million as compared with $82.2 million in the prior year period, a decrease of $10.8 million or 13.1%, primarily due to lower salary and benefit expense associated with our restructuring activities, third-party fees, and engineering materials expense, partially offset by higher employee incentives, higher costs associated with approximately 4% inflation, and unfavorable foreign currency fluctuation. SG&A as a percentage of net sales was 17.4% and 16.4% in the nine months ended June 30, 2024 and 2023, respectively.

Corporate

SG&A for the nine months ended June 30, 2024 was $42.8 million as compared with $40.2 million in the prior year period, an increase of $2.6 million or 6.5%, primarily as a result of higher costs associated with increased employee incentives, approximately 3% inflation, and higher third-party fees partially offset by lower salary and benefit expense associated with restructuring activities we undertook in 2023, and lower travel expense.

Liquidity and Capital Resources

We had cash and cash equivalents on hand of $243.3 million at June 30, 2024 and $162.6 million of additional borrowing capacity under our ABL based on June 30, 2024 data. At June 30, 2024, cash and cash equivalents included $75.5 million, $8.0 million and $9.6 million in Israel, Canada, and China, respectively.

We declared a quarterly dividend of $0.064 per share on July 24, 2024, payable on or about August 20, 2024 to stockholders of record as of August 9, 2024, which will result in an estimated $10.0 million cash outlay.

We repurchased $10.0 million of our outstanding common stock during the nine months ended June 30, 2024 under our publicly announced share repurchase program, and as of June 30, 2024, we had $80.0 million remaining under our share repurchase authorization.

The ABL and 4.0% Senior Notes contain customary representations and warranties, covenants and provisions governing an event of default. These covenants limit our ability to engage in certain specified activities, including but not limited to the payment of dividends and the redemption of our common stock.

Net cash provided by operating activities was $149.5 million during the nine months ended June 30, 2024 as compared with net cash provided by operating activities of $52.5 million in the prior year period. The increase in net operating cash flow was primarily driven by higher net income and improvements in working capital compared with the prior year period.

Capital expenditures were $28.0 million in the nine months ended June 30, 2024 as compared with $32.4 million in the prior year period. Capital expenditures decreased primarily as a result of lower expenditures associated with the new Decatur foundry as compared with the prior year period. For the fiscal year 2024, we have provided guidance that our capital expenditures are expected to be between $40.0 million and $45.0 million.

We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected operating cash flows will be sufficient to meet our anticipated operating needs, income tax payments, capital expenditures and debt service obligations as they become due through the next twelve months from the date of this filing. However, our ability to make these payments will depend largely on our future operating performance, which may be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

ABL Agreement

Our ABL is provided by a syndicate of banking institutions and consists of a revolving credit facility for up to $175.0 million in borrowings that matures the earlier of (a) March 16, 2029, which is ninety-one days prior to the stated maturity date of our 4.0% Senior Notes if the Notes are still outstanding on that date or (b) March 28, 2029. The ABL includes the ability to borrow up to $25.0 million of swing line loans and up to $60.0 million of letters of credit. The ABL permits us to increase the size of the credit facility by an additional $150.0 million in certain circumstances subject to adequate borrowing base availability.

In December 2023, we obtained a waiver under our ABL ("ABL Waiver") to provide for additional time associated with certain reporting requirements that were delayed as a result of the cybersecurity incident announced on October 28, 2023. Under the ABL Waiver, the maximum aggregate amount of borrowings and other credit extensions under the ABL was limited to $50.0 million at any time outstanding until all of the required reports were delivered. During our first fiscal quarter of 2024, we delivered the required reports, and on February 6, 2024, the ABL Waiver was terminated. Accordingly, we are no longer subject to any additional restrictions or borrowing limitations under the ABL, including the $50.0 million temporary limit on credit extensions.

On March 28, 2024, we amended our ABL to, among other things, (i) extend the maturity date from July 29, 2025 to the earlier of (a) March 28, 2029 and (b) 91 days prior to the stated maturity date of the Company's 4.0% Senior Notes due June 15, 2029 (as may be extended from time to time in accordance with the Indenture governing the notes) if the 4.0% Senior Notes are then outstanding, (ii) decrease the grid-based interest rate margins by approximately 50 basis points to 150 basis points for Secured Overnight Financing Rate ("SOFR") loans and 50 basis points for base rate loans when average availability is greater than 50% of the aggregate revolving commitments, and to 175 basis points for SOFR loans and 75 basis points for base rate loans, when average availability is less than or equal to 50% of the aggregate revolving credit commitments and (iii) replace the previously fixed 37.5 basis point unused commitment fee with a grid-based, quarterly unused commitment fee equal to (a) 37.5 basis points if average daily outstanding credit extensions for such quarter under the ABL ("Total Outstandings") are less than or equal to 50% of the aggregate revolving credit commitments or (b) 25.0 basis points if Total Outstandings for such quarter are greater than or equal to 50% of the aggregate revolving credit commitments. We incurred approximately $0.9 million in debt issuance costs in connection with the ABL amendment which were capitalized and will be amortized over the term of the ABL.

Borrowings under the ABL bear interest at a floating rate equal to SOFR plus an adjustment of 10 basis points plus an applicable margin range of 150 to 175 basis points, or a base rate, as defined in the ABL, plus an applicable margin range of 50 to 75 basis points. At June 30, 2024, the applicable margin for SOFR-based loans was 150 basis points and for base rate loans was 50 basis points.

The ABL is subject to mandatory prepayments if total outstanding borrowings under the ABL are greater than the aggregate commitments under the revolving credit facility or if we dispose of overdue accounts receivable in certain circumstances. The borrowing base under the ABL is equal to the sum of (a) 85% of the value of eligible accounts receivable and (b) the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less certain reserves. Prepayments can be made at any time without penalty.

Substantially all of our United States subsidiaries are borrowers under the ABL and are jointly and severally liable for outstanding borrowings. Our obligations under the ABL are secured by a first-priority perfected lien on all of our United States inventory, accounts receivable, certain cash balances and other supporting assets.

The ABL includes a commitment fee for any unused borrowing capacity of 37.5 basis points per annum when the unused capacity is above 50% of the credit commitments, with a step down to 25.0 basis points per annum when unused capacity is less than or equal to 50% of the credit commitments. At June 30, 2024, the commitment fee was 37.5 basis points.

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. Excess availability based on June 30, 2024 data was $162.6 million, as reduced by $12.2 million of outstanding letters of credit and $0.2 million of accrued fees and expenses.

4.0% Senior Unsecured Notes

On May 28, 2021, we privately issued $450.0 million of 4.0% Senior Unsecured Notes ("4.0% Senior Notes"), which mature on June 15, 2029, and bear interest at 4.0%, paid semi-annually in June and December. We capitalized $5.5 million of financing costs which are being amortized over the term of the 4.0% Senior Notes using the effective interest method. Substantially all of our United States subsidiaries guarantee the 4.0% Senior Notes, which are subordinate to borrowings under our ABL. Based on quoted market prices, which is a Level 1 measurement, the outstanding 4.0% Senior Notes had a fair value of $411.3 million at June 30, 2024.

An indenture governing the 4.0% Senior Notes ("Indenture") contains customary covenants and events of default, including covenants that limit our ability to incur certain debt and liens. There are no financial maintenance covenants associated with the Indenture. We believe we were in compliance with these covenants at June 30, 2024.

We may redeem some or all of the 4.0% Senior Notes at any time after June 15, 2024, at specified redemption prices. Upon a Change of Control, as defined in the Indenture, we could be required to offer to purchase the 4.0% Senior Notes at a price equal to 101% of the outstanding principal amount if there is a Ratings Decline (as defined in the Indenture).

Our corporate credit rating and the credit rating for our debt and outlook are presented below:

	Moody's		Standard & Poor's	
	June 30, 2024	September 30, 2023	June 30, 2024	September 30, 2023
Corporate credit rating	Ba1	Ba1	BB	BB
ABL Agreement	Not rated	Not rated	Not rated	Not rated
4.0% Senior Notes	Ba1	Ba1	BB	BB
Outlook	Stable	Stable	Stable	Stable

These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agencies.

Material Cash Requirements

We enter into a variety of contractual obligations as part of our normal operations in addition to capital expenditures. As of June 30, 2024, we had (i) debt obligations related to our $450.0 million 4.0% Senior Notes which mature in 2029 and include annual cash interest payments of $18.0 million in 2024 through 2029, (ii) cumulative cash obligations of $34.5 million for operating leases through 2034 and $2.3 million for finance leases through 2030, and (iii) purchase obligations for raw materials and other parts of approximately $125.6 million which we expect to incur during the next 12 months and $1.7 million beyond June 30, 2025. Additionally, we may continue to invest to strengthen our systems, cybersecurity training, policies, programs, response plans and other similar measures. We expect to fund these cash requirements from cash on hand and cash generated from operations.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as "structured finance" or "special purpose" entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, at June 30, 2024, we did not have any undisclosed borrowings, debt, derivative contracts or synthetic leases. Therefore, we were not exposed to any financing, liquidity, market or credit risk that could have arisen had we engaged in such relationships.

We use letters of credit and surety bonds in the ordinary course of business to ensure the performance of contractual obligations. At June 30, 2024, we had $12.2 million of letters of credit and $13.4 million of surety bonds outstanding.

Seasonality

Our business is seasonal as a result of the impact of cold weather conditions. Net sales and operating income historically have been lowest in the three-month periods ending December 31 and March 31 when the northern United States and most of Canada generally face weather conditions that restrict significant construction activity. Therefore, the results of operations for the three and nine months ended June 30, 2024 are not necessarily indicative of operating results that may be achieved for any other interim period or the full year.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. These estimates are based upon experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We consider an accounting estimate to be critical if changes in the estimate that are reasonably likely to occur over time or the use of reasonably different estimates could have a material impact on our financial condition or results of operations. Our critical accounting estimates can be found in the "Critical Accounting Estimates" section in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2023 Annual Report on Form 10-K. There have been no changes in the Company's determination of critical accounting estimates since September 30, 2023.

Item 4. CONTROLS AND PROCEDURES

There have been no changes in our internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended June 30, 2024.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and our Chief Financial Officer have concluded, based on an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls can prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to the information provided in Note 10. to the Notes to the Condensed Consolidated Financial Statements presented in Item 1. of Part I of this report.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in PART I, "Item 1A. RISK FACTORS" in our 2023 Annual Report on Form 10-K, each of which could materially affect our business, financial condition or operating results. These described risks are not the only risks facing us. Additional risks and uncertainties not known to us or that we deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In 2015, we announced the authorization of a stock repurchase program for up to $50.0 million of our common stock. The program does not commit us to a particular timing or quantity of purchases, and we may suspend or discontinue the program at any time. In 2017, we announced an increase to the authorized amount of this program to $250.0 million.

We repurchased no shares of our common stock during the three months ended June 30, 2024 pursuant to this authorization, and as of June 30, 2024, we had $80.0 million remaining under our share repurchase authorization.

During the three months ended June 30, 2024, 249 shares were surrendered to us to pay the tax withholding obligations of participants in connection with the vesting of equity awards.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs (in millions)
April 1-30, 2024	249	$ 15.84	—	$ 80.0
May 1-31, 2024	—	—	—	80.0
June 1-30, 2024	—	—	—	$ 80.0
Total	249	$ 15.84	—	

Item 5. OTHER INFORMATION

(c) Our Section 16 officers and directors, as defined in Rule 16a-1(f) of the Securities and Exchange Act of 1934 (the "Exchange Act"), may from time to time enter into plans for the purchase or sale of our common stock that are intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act. During the quarter ended June 30, 2024, the following directors adopted "Rule 10b5-1 trading arrangements" (as defined in Item 408 of Regulation S-K of the Exchange Act):

Brian Healy, a Member of the Board of Directors, adopted a written trading plan on May 15, 2024. The trading plan's maximum duration is until January 30, 2025. The first trade will not occur until August 14, 2024. The trading plan is intended to permit Mr. Healy to purchase up to $75,000 worth of shares of common stock of the Company, subject to certain conditions.

Christine Ortiz, a Member of the Board of Directors, adopted a written trading plan on May 10, 2024. The trading plan's maximum duration is until March 7, 2025. The first trade will not occur until August 14, 2024. The trading plan is intended to permit Dr. Ortiz to sell up to 20,760 shares of common stock of the Company, subject to certain conditions.

Each of these trading plans was adopted during an open trading window.

No other Section 16 officers or directors, as defined in Rule 16a-1(f), adopted, modified, or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as defined in Item 408 of Regulation S-K, during the three months ended June 30, 2024.

Item 6. EXHIBITS

o.	Document
	Letter Agreement, amending Employment Agreement dated August 21, 2023, by and between Mueller Water Products, Inc. and Paul McAndrew.
	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	The following financial information from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in XBRL (Extensible Business Reporting Language), (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Stockholders' Equity, (v) the Unaudited Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.
	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\+ Management compensatory plan, contract or arrangement

* Filed or furnished with this quarterly report

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MUELLER WATER PRODUCTS, INC.

Date: August 6, 2024

By: /s/ Suzanne G. Smith
Suzanne G. Smith
Chief Accounting Officer