ZURN ELKAY
WATER SOLUTIONS

2022

Annual Report

About Zurn Elkay Water Solutions

Named one of America's Most Responsible Companies for three consecutive years by *Newsweek* and named a USA Top Workplace 2022 by Energage, Zurn Elkay Water Solutions is headquartered in Milwaukee, WI, and is a growth-oriented, pure-play water business.

We pride ourselves on meeting specialized needs by providing what we believe is the broadest sustainable product portfolio of solutions for health, hydration, human safety and the environment. From our filtered bottle filling stations that help protect children from the dangers of lead in U.S. drinking water to our high-performing backflow preventers that protect clean drinking water by preventing the reverse flow of unclean or contaminated water into the potable water system, our products are designed for public and private spaces to solve customers' and end-users' biggest water management challenges, while also protecting our world's most important resource.

Our Zurn Elkay Business System (ZEBS) helps our approximately 2,700 Zurn Elkay associates deliver world-class performance and continuous improvement. ZEBS enables speed, scalability and consistency to drive superior satisfaction for our customers and create long-term value for our shareholders.

In July 2022, Zurn Water Solutions combined with Elkay Manufacturing Company. In conjunction with the combination, we changed our name to Zurn Elkay Water Solutions Corporation, adding drinking water to our product portfolio.

Our sole focus on providing clean water helps ensure our customers can meet the sustainability and safety expectations of the people and communities they support. Specializing in water management also strengthens our position as an innovative, sustainable and responsible global company. Our team is focused on designing products that conserve water, keep water clean, provide safe drinking water, require fewer resources to manufacture and ultimately protect our environment.

Today, we continuously sharpen our resolve to fulfill our commitments to corporate social responsibility and environmental, social and governance (ESG) principles. At the same time, we never lose sight of our commitment to doing what's right. We make our communities better with volunteerism and philanthropy. We work inside and outside our walls to support diversity, equity and inclusion. We seek every day to uphold our promise to the planet. In everything we do, we are sustainably inspired.

Corporate Information

Annual Report on Form 10-K

The company's annual report on Form 10-K for the year ended December 31, 2022, has been filed with the Securities and Exchange Commission. A copy is included as part of this report.

Annual Meeting

Thursday, May 4, 2023, at 9:00 a.m. CDT

Corporate Office

Zurn Elkay Water Solutions Corporation
511 W. Freshwater Way; Milwaukee, WI 53204
Zurn-Elkay.com

Common Stock Listing

New York Stock Exchange
Symbol: ZWS

Transfer Agent

AST Financial
6201 15th Avenue; Brooklyn, NY 11219
800.937.5449
astfinancial.com

Independent Registered Public Accounting Firm

Ernst & Young LLP
Milwaukee, Wisconsin

Legal Counsel

Quarles & Brady LLP
Milwaukee, Wisconsin

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2022

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

For the transition period from to

ZURN ELKAY WATER SOLUTIONS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**001-35475**	**20-5197013**
(State or Other Jurisdiction of Incorporation or Organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**
511 W. Freshwater Way Milwaukee, Wisconsin		**53204**
(Address of Principal Executive Offices)		**(Zip Code)**

Registrant's telephone number, including area code: (855) 480-5050

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 $.01 par value	**ZWS**	**The New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2022, the aggregate market value of the shares of common stock (based upon the $27.10 closing price on the New York Stock Exchange on June 30, 2022, the last trading day of the registrant's second fiscal quarter) held by non-affiliates (excludes shares reported as beneficially owned by then-current directors and executive officers - does not constitute an admission as to affiliate status) was approximately $3.4 billion.

As of February 10, 2023, there were 176,070,160 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Report on Form 10-K incorporates by reference certain information from the Proxy Statement for the Registrant's annual meeting of stockholders, to be held on or about May 4, 2023, which Proxy Statement will be subsequently filed.

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PART I

EXPLANATORY NOTE REGARDING THE TRANSITION PERIOD

Following the end of our fiscal year ended March 31, 2020, we transitioned to a December 31 fiscal year-end date. As a result, this report on Form 10-K includes financial information for the transition period from April 1, 2020 through December 31, 2020 (the “Transition Period”). Prior to the Transition Period, our fiscal year was the year ending on March 31 of the corresponding calendar year. For example, our fiscal year 2020, or fiscal 2020, was the period from April 1, 2019, to March 31, 2020. Our fiscal 2021 commenced on January 1, 2021 and includes the period from January 1, 2021 to December 31, 2021. Within this report, we compare the financial results for fiscal 2021, which are audited, with the financial results for the twelve month period ended December 31, 2020, which are unaudited.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of the federal securities laws that involve risks and uncertainties. Forward-looking statements include statements we make concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information and, in particular, appear in Items 1, 1A and 7 of this report. When used in this report, the words "estimates," "expects," "anticipates," "projects," "forecasts," "plans," "believes," "foresees," "seeks," "likely," "may," "might," "will," "should," "goal," "target" or "intends" and variations of these words or similar expressions (or the negative versions of any such words) are intended to identify forward-looking statements. All forward-looking statements are based upon information available to us on the date of this report.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this report in the Items identified above. Some of the factors that we believe could affect our results include:

- changes in economic and business conditions, generally and, in particular, changes in commercial and institutional building construction activity and in other cyclical industries;
- increases in cost of our raw materials, including as a result of tariffs, trade wars and other trade protection matters, and our possible inability to increase product prices to offset such increases;
- the costs and uncertainties related to strategic acquisitions or divestitures or the integration of recent and future acquisitions into our business;
- performance, and potential failure, of our information and data security systems, including potential cyber security threats and breaches;
- the loss of any significant customer;
- increased competition;
- dependence on independent distributors and independent sales representatives;
- reliance on intellectual property;
- loss of key personnel and a failure to effectively manage human capital resources;
- legislative, regulatory and legal developments involving taxes;
- the costs of compliance and/or the imposition of liabilities under environmental, climate, health and safety laws and regulations;
- impact of weather on the seasonality of the demand for our products;
- impact of climate change on our operations and demand for our products;
- the costs associated with asbestos claims and other potential product liability;
- changes in technology and manufacturing techniques;
- changes in laws and regulations, or the interpretation or enforcement thereof, including laws and regulations addressing climate change, environmental matters and the transition to a reduced-carbon economy;
- terrorism, conflicts, wars, and other events outside our control;
- changes in pension funding requirements;

- the impact of our indebtedness;
- the effects of an infectious disease outbreak on our business, financial condition, employees, customers, distributors and supply chain, including the impact related to governmental actions; an infectious disease outbreak may, among other impacts, heighten the effects on our business, results of operations and financial condition of the other risk factors identified herein;
- the effect of local, national and international economic, credit and capital market conditions on the economy in general, and on our customers and the industries in which we operate in particular;
- our access to available and reasonable financing on a timely basis;
- work stoppages by unionized employees;
- potential impairment of goodwill and intangible assets; and
- the other factors described in this report, including those discussed in "Risk Factors" in Part I, Item 1A.

There are likely other factors that could cause our actual results to differ materially from the results referred to in the forward-looking statements. All forward-looking statements attributable to us apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to publicly update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events, except as required by law.

ITEM 1. BUSINESS.

Overview

As previously disclosed, on February 12, 2022, Zurn Water Solutions Corporation ("Zurn") entered into a definitive agreement to combine with Elkay Manufacturing Company ("Elkay"), pursuant to an Agreement and Plan of Merger (the "Merger Agreement") by and among Zurn, Elkay, Zebra Merger Sub, Inc., a wholly owned subsidiary of Zurn ("Merger Sub"), and Elkay Interior Systems International, Inc., as representative of the stockholders of Elkay, providing for the merger of Elkay with and into Merger Sub, with Elkay surviving as a wholly owned subsidiary of Zurn (the "Merger"). On July 1, 2022, the Merger was completed following which we changed our name to "Zurn Elkay Water Solutions Corporation" ("Zurn Elkay", "we", "us", "our", or the "Company"). Shares of our common stock continue to trade on the New York Stock Exchange under the ticker symbol "ZWS".

Also, as previously disclosed, on October 4, 2021, we completed a Reverse Morris Trust tax-free spin-off transaction (the "Spin-Off Transaction") in which (i) substantially all the assets and liabilities of our Process & Motion Control business were transferred to a newly created subsidiary, Land Newco, Inc. ("Land"), (ii) the shares of Land were distributed to our stockholders pro rata, and (iii) Land was merged with a subsidiary of Regal Rexnord Corporation (formerly known as Regal Beloit Corporation), in which the stock of Land was converted into shares of Regal Rexnord Corporation. Following completion of the Spin-Off Transaction, we changed our name to "Zurn Water Solutions Corporation" and the ticker symbol for our shares of common stock trading on the New York Stock Exchange was changed to "ZWS".

Prior to the completion of the Spin-Off Transaction our business consisted of two platforms: Process & Motion Control and Water Management. Following the Spin-Off Transaction, the operating results and financial position of the Process & Motion Control platform are reported as discontinued operations within our consolidated financial statements and we operate as a single Water Management platform.

Following the completion of the Spin-Off Transaction and the Merger with Elkay, Zurn Elkay is a growth-oriented, pure-play water management business that designs, procures, manufactures, and markets what we believe to be the broadest sustainable product portfolio of specification-driven water management solutions to improve health, human safety and the environment. Our product portfolio includes professional grade water safety and control products, flow system products, hygienic and environmental products, and drinking water products for public and private spaces that deliver superior value to building owners, positively impact the environment and human hygiene and reduce product installation time. Our heritage of innovation and specification has allowed us to provide highly-engineered, mission-critical solutions to customers for decades and affords us the privilege of having long-term, valued relationships with market leaders. We operate in a disciplined way and the Zurn Elkay Business System ("ZEBS"), described below, is our operating philosophy. Grounded in the spirit of continuous improvement, ZEBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business.

Zurn Elkay is a leading provider of specification-driven water management solutions to the multi-billion dollar construction market of primarily commercial and institutional buildings and to a lesser extent to the waterworks and residential construction markets.

Our strategy is to build Zurn Elkay around a strategic platform that participates in end markets with sustainable growth characteristics where we are, or have the opportunity to become, the industry leader. We have a track record of acquiring and integrating companies and expect to continue to pursue strategic acquisitions that will broaden our product lines, allow us to move into adjacent markets and expand our geographic presence.

The demand for our products is primarily driven by new commercial and institutional building construction, the retrofit of existing structures (to make them more energy and water efficient) and, to a lesser extent, new infrastructure and residential construction. With our broad portfolio of products, we believe we have become a market leader in the industry by developing innovative products that meet stringent third-party regulatory, building, and plumbing code requirements and by subsequently achieving specification of our products into projects and applications.

We are led by an experienced, high-caliber management team that employs ZEBS as a proven operating philosophy to drive excellence and world-class performance in all aspects of our business, and which includes our "Voice of the Customer" process to promote superior customer satisfaction. Our physical footprint encompasses 40 principal manufacturing and warehouse facilities located primarily in North America.

ZEBS

ZEBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business. ZEBS is based on the following principles: (1) strategy deployment (a long-term strategic planning process that determines annual improvement priorities and the actions necessary to achieve those priorities); (2) measuring our performance based on customer satisfaction, or the "Voice of the Customer;" (3) involvement of all our associates in the execution of our strategy; and (4) a culture that embraces Kaizen, the Japanese philosophy of continuous improvement and the concepts around 80/20 simplification. We believe applying ZEBS can yield superior growth, quality, delivery and operating costs relative to our competition, resulting in enhanced profitability and ultimately the creation of stockholder value. As we have applied ZEBS over the past several years, we have experienced improvements in growth, productivity, cost reduction and asset efficiency and believe there are opportunities to continue to improve our performance as we continue to apply ZEBS.

Our Business

Zurn Elkay designs, procures, manufactures, and markets what we believe is the broadest sustainable product portfolio of specification-driven water management solutions to promote health, provide clean drinking water, conserve and protect natural resources and help keep people safe. Our product portfolio includes professional grade water safety and control products, flow system products, hygienic and environmental products, and drinking water products for public and private spaces that deliver superior value to building owners, positively impact the environment and human hygiene and reduce product installation time. Our products are marketed and sold under widely recognized brand names, including Zurn®, Elkay®, Wilkins®, Green Turtle®, World Dryer®, StainlessDrains.com™, JUST®, Hadrian®, Wade®, and Halsey Taylor®.

Over the past century, Zurn Elkay has established itself as an innovator and leading designer, manufacturer and distributor of highly engineered products and solutions that control the flow, delivery, treatment and conservation of water as well as human hygiene to and within institutional and commercial buildings and, to a lesser extent, for waterworks and residential applications. The institutional construction end users include education, healthcare, and government segments. The commercial construction end users includes office, warehouse, lodging, retail, dining, and sports arenas segments. The waterworks end users include, municipal water and wastewater and transportation segments. The demand for our products is primarily driven by new commercial and institutional building construction, the retrofit of existing structures (to make them more energy and water efficient) and, to a lesser extent, new waterworks and residential construction.

Our products are principally specification-driven given their technical design and ability to meet certain performance characteristics. They deliver superior value to building owners, positively impact the environment and human health and hygiene and reduce product installation time while meeting the stringent county-specific regulatory, building, and plumbing code requirements. These stringent testing and regulatory approval processes are completed principally through the Foundation for Cross-Connection Control and Hydraulic Research at the University of Southern California, the International Association of Plumbing and Mechanical Officials ("IAPMO"), the National Sanitation Foundation ("NSF"), ASTM International ("ASTM"), the Plumbing and Drainage Institute ("PDI"), Underwriters Laboratories ("UL"), Factory Mutual ("FM") and the American Waterworks Association ("AWWA") typically prior to the commercialization of our products. Our products are project-critical and typically represent a low percentage of the overall project cost. We believe these characteristics, coupled with our extensive distribution network, create a high level of end-user loyalty for our products and allow us to achieve specification of our products into projects and applications and to maintain leading market shares in the majority of our product lines.

We utilize an extensive sales and marketing network spanning approximately 30 countries, which consists of approximately 1,070 independent sales representatives across 190 sales agencies. Specifically, it has been our experience that, once an architect, engineer, contractor, or owner has specified our product with satisfactory results, that person will generally continue to use our products in future projects. The inclusion of our products with project specifications, combined with our ability to innovate, engineer, and deliver products and systems that save time and money in both installation and over the life of the product for engineers, architects, contractors and builders, and has resulted in growing demand for our products. Our distribution model is predicated upon maintaining high product availability near our customers. We believe this model provides us with a competitive advantage as we can meet our customer demand with local inventory at significantly reduced lead times as compared with others in our industry.

Our Markets

We evaluate our competitive position in our markets based on available market data, relevant benchmarks compared to our relative peer group and industry trends. We generally do not participate in segments of our served markets that have been commoditized or in applications that do not require differentiation based on product quality, reliability and innovation. We serve a broad and diverse array of institutional, commercial and industrial end markets, and to a lesser extent waterworks and residential end markets, with solid fundamental long-term growth characteristics. We believe there continues to be long-term growth potential in our markets.

The markets in which we participate are relatively fragmented with competitors across a broad range of industries, sectors, and product lines. Although competition exists across all of our businesses, we do not believe that any one competitor directly competes with us across the breadth of all of our product lines. We believe our served markets are growing long term at relatively strong rates, and that the growing demand for water safety, conservation, hygienic solutions, availability of clean drinking water, and the elimination of plastic water bottles can potentially support market growth above that of overall United States industrial production. We believe that we can continue to grow our platform long term at rates above the growth rate of the overall market and the growth rate of our competition, by focusing our efforts and resources towards end markets that have above-average growth characteristics.

We believe the areas in which we compete are primarily tied to growth in commercial and institutional construction, as well as, to a lesser extent, waterworks. We believe these areas have significant long-term growth fundamentals. Historically, the commercial, institutional and waterworks construction sectors have been more stable and less vulnerable to down-cycles than the residential construction industry. Compared with residential construction cycles, downturns in waterworks, commercial and institutional construction have been shorter and less severe, and upturns have lasted longer and had higher peaks in terms of spending as well as units and square footage. In addition, we believe water management manufacturers with innovative products, like ours, are able to grow at a faster pace than the broader waterworks, commercial, and institutional construction markets, as well as mitigate cyclical downturns in market growth.

The industry's specification-driven end-markets require manufacturers to work closely with building owners, local engineers, architects, contractors and builders to design specific applications on a project-by-project basis that meet specific local performance requirements as well as building owners' needs. As a result, building and maintaining relationships with owners, architects, engineers, contractors and builders, who specify products for use in construction projects, and having flexibility in design and product innovation are critical to compete effectively in these markets. Companies with a strong network of such relationships have a competitive advantage. Specifically, it has been our experience that, once an owner, engineer, contractor, builder, or architect has specified our product with satisfactory results, they often will continue to use our products in future projects.

Our Products

Our products tend to be project-critical, highly-engineered and high value-add and typically are a low percentage of overall project cost. We believe the combination of these features can create a high level of end-user loyalty, reinforced by our investments in developing innovative new product solutions. Demand for these products is influenced by regulatory, building and plumbing code requirements. Many of our products must meet stringent county, state or municipal-specific regulatory, building, and plumbing code requirements prior to the commercialization of our products (such as IAPMO, NSF, UL, FM, PDI and AWWA). In addition, many of these products must meet detailed specifications set by water management engineers, architects, contractors and builders. Among our leading brands are Zurn®, Elkay®, and Wilkins®.

Water Safety and Control Products

Our water safety and control products are sold under the Zurn® and Wilkins® brand names and encompass a wide range of valve and water distribution control products. Key valve products include backflow preventers, fire system valves, pressure reducing valves and thermostatic mixing valves. These highly specified and engineered flow control devices protect and control the potable water supply and emergency water supply within a building or site. Designed to meet the stringent requirements of independent test labs, such as the IAPMO, NSF, UL and FM, they are sold into institutional, commercial, and residential new construction and retrofit applications as well as the fire protection, municipal water and wastewater and irrigation end markets.

Water control solutions that protect human health and gravity drainage products that protect the environment are sold under the Zurn® brand and are typically required in the early stages of a construction or retrofit project, when potable water and non-potable water control and drainage systems are installed. Water control products include PEX piping, valves, fittings and installation tools. PEX tubing is manufactured from cross-linked polyethylene and is designed for high temperature and pressure fluid distribution piping applications for both potable water and radiant heating systems in the residential and nonresidential construction industries. These systems are engineered to meet stringent NSF and ASTM standards helping water professionals provide safe and efficient building and site water management solutions.

Flow Systems Products

Flow systems products are commonly installed within a building or on a site to manage storm water and wastewater. Specification drainage products within flow systems include point drains (such as roof drains and floor drains), hydrants, fixture carrier systems, and chemical drainage systems that are used to control storm water, and process water and potable water in various institutional, commercial, industrial, civil and irrigation applications. Linear drainage systems are used to capture and direct storm water in a wide variety of institutional, commercial, industrial and transportation infrastructure applications. Our wastewater pre-treatment products include oil and grease interceptors and separators, acid neutralization systems and remote monitoring systems and are marketed under the Zurn® and Green Turtle® brands. Interceptors are used to separate and capture fats, oils, and greases from wastewater before it is discharged into the municipal wastewater collection system. Our proprietary designs are primarily fabricated from fiberglass reinforced polyester, which we believe is gaining market share from traditional concrete products due to its reliability, service life, ease of service, and lowest cost of ownership. Applications include restaurants and institutional foodservice operations, office buildings, hotels, entertainment venues, schools, grocery and convenience stores, airports, vehicle service garages, and fleet operations and maintenance facilities. Acid neutralization systems are primarily used in schools, hospitals and laboratories.

In fiscal 2021, we acquired substantially all of the assets of Advance Technology Solutions, LLC (d/b/a ATS GREASEwatch) ("ATS GREASEwatch"). ATS GREASEwatch, develops, manufactures and markets remote tank monitoring devices, alarms, software and services for various applications and provides technology to enhance and expand our current product offerings.

In addition, we expanded our high-quality flow systems portfolio during fiscal 2021 with the acquisition of the Wade Drains ("Wade") product line from McWane, Inc. The acquisition of the Wade product line leverages Zurn Elkay's existing expertise in flow systems to expand our market coverage and offer an additional brand of drainage and environmental products.

Hygienic and Environmental Products

Hygienic and environmental products are typically required in the latter stages of a construction or retrofit project, when interior spaces are being outfitted with fixtures, valves and faucets. Zurn Elkay's hygienic and environmental products include primarily sensor-operated flush valves marketed under the Aquaflush®, AquaSense® and AquaVantage® brand names and heavy-duty commercial faucets marketed under the AquaSpec® brand name. Innovative water conserving fixtures are marketed under the EcoVantage® and Zurn One® brand names. These products are commonly used in schools, hospitals, office buildings, airports, sports facilities, convention centers, shopping malls, restaurants, and industrial production buildings. The Zurn One Systems® integrate valve and/or faucet products with fixtures into complete, easily customizable plumbing systems, and thus provide a valuable time and cost-saving means of delivering institutional and commercial bathroom fixtures. The EcoVantage® fixture systems promote water-efficiency, health and hygiene and assist in achieving compliance with certain water conservation requirements, and generate savings for building owners in new construction and retrofit bathroom fixture installations.

In 2020, we acquired Just Manufacturing Company ("Just Manufacturing") a leading manufacturer of stainless steel sinks and plumbing fixtures primarily used in institutional and commercial end markets. In addition, we acquired substantially all of the assets of Hadrian Manufacturing Inc. and 100% of the stock of Hadrian, Inc. (collectively "Hadrian") a leading manufacturer of restroom partition systems and lockers primarily used in institutional and commercial end markets. The combination of World Dryer's eco-friendly hand dryers, Just Manufacturing's stainless steel product portfolio, Hadrian's partition systems and Zurn Elkay's water-efficient hygienic and environmental products allows us to deliver a bundle of products known as "BrightShield by Zurn" to our customers, what we believe is the most comprehensive hygienic and environmental content to new and existing buildings.

In fiscal 2022, we completed the merger with Elkay, a leading manufacturer and distributor of drinking water solutions and commercial and residential sinks. Elkay offers a wide array of sinks recognized for their design, durability and aesthetics. These products are commonly used in residential, hotel and lodging, office, retail, education, healthcare, transportation, recreation and leisure, public and industrial applications. Elkay's sinks are sold in various forms, with stainless steel representing the most popular, followed by quartz, fireclay-ceramic, cast iron, and other materials.

Drinking Water Products

With the Elkay Merger, we added a leading drinking water product line that includes an extensive collection of drinking water delivery products oriented around providing the cleanest, superior tasting water while improving overall water hygiene, accessibility and sustainability. Elkay's water dispensing and filtration products, predominantly comprised of bottle filling stations, water fountains and water dispensers, are often plumbed directly into building water systems and required to comply with strict applicable codes and standards. Elkay's drinking water solutions are designed to meet or exceed facility needs and specifications of education, healthcare, hospitality, multifamily, municipal, office, retail and commercial facilities.

Acquisitions

Mergers and acquisitions are a critical part of the Zurn Elkay growth strategy. Our strategy is to grow strategically by acquiring leading companies in attractive markets with businesses that we believe will benefit from ZEBS to increase customer satisfaction, revenue growth and operating margins. In our last three fiscal years, we have completed several acquisitions focused on expanding our product portfolio and presence in the end markets we serve; those acquisitions are further described below. The respective purchase prices for these transactions are stated net of cash acquired and exclude transaction costs.

- July 1, 2022 - We completed the merger with Elkay for a preliminary purchase price of $1,462.9 million. The preliminary purchase price includes $1,417.0 million of Zurn's common stock based on Zurn's closing stock price of $27.48 on July 1, 2022, and $45.9 million of net cash payments for the repayment of Elkay's existing term loan and Elkay's transaction related costs outstanding that were in excess of Elkay's cash and cash equivalents balance at the time of closing. The total number of shares of our common stock issued at closing was preliminary and subject to change upon finalization of customary post-closing adjustments with respect to cash, indebtedness and working capital. We expect that approximately 186,000 of these shares will be returned to us in the first half of calendar year 2023 as a result of lower working capital and cash balances at closing compared to targets stipulated in the Merger Agreement. Elkay is a market leader of drinking water solutions and commercial sinks which complements the offerings of our existing product portfolio.
- November 17, 2021 - We expanded our high-quality flow systems portfolio with the acquisition of the Wade product line from McWane, Inc. for a cash purchase price of $12.6 million. During the twelve months ended December 31, 2022, we received a $1.1 million cash payment from the sellers of Wade in connection with finalizing the acquisition date trade working capital, which is included in the total cash purchase price above. Founded in 1865, Wade manufactures a wide range of specified commercial flow systems products for customers across North America. The acquisition leverages our existing expertise in flow systems to expand our market coverage and offer an additional brand of drainage and environmental products.
- April 16, 2021 - We acquired substantially all of the assets of ATS GREASEwatch for a cash purchase price of $4.5 million. ATS GREASEwatch develops, manufactures and markets remote tank monitoring devices, alarms, software and services for various applications and provides technology to enhance and expand our current product offerings and complements our existing product portfolio.
- December 11, 2020 - We acquired substantially all of the assets of Hadrian for a total cash purchase price of $101.3 million. Hadrian manufactures washroom partitions and lockers primarily used in institutional and commercial end markets and complements our existing product portfolio.
- January 28, 2020 - We acquired substantially all of the assets of Just Manufacturing for a cash purchase price of $59.4 million. Just Manufacturing manufactures stainless steel sinks and plumbing fixtures primarily used in institutional and commercial end markets and complements the offerings of our existing product portfolio.

Customers

Our water safety and control, flow systems products, hygienic and environmental, and drinking water products are sold for new construction, remodeling and retrofit applications to customers in commercial, institutional, waterworks and residential end markets and are distributed through independent sales representatives, plumbing wholesalers and industry-specific distributors in the waterworks, foodservice, industrial, janitorial, sanitation and siteworks industries. Our independent sales representatives work with building owners, engineers, architects, and operators, contractors, and builders, to specify our water safety, quality, flow control and conservation products for their use and with wholesalers to assess and meet the needs of building contractors in construction projects. They also combine knowledge of our products' installation methods and delivery availability with local market expertise to provide contractors with value-added service. We use approximately 1,070 independent sales representatives, along with a network of regional distribution centers and third-party warehouses, to provide our customers with same-day service and quick response times. Zurn®, Elkay® and Wilkins® benefit from strong brand recognition, which is enhanced by a strong propensity to replace "like-for-like" products.

Product Development

The majority of our new product development begins with our extensive "Voice of the Customer" operating philosophy. We have a team of approximately 150 engineers and technical employees who are organized by product line. Each of our product lines has technical staff responsible for product development and application support.

Zurn Elkay has approximately 160 active patents in the United States and approximately 70 foreign active patents as of December 31, 2022. Product innovation is crucial in the commercial and institutional plumbing products markets because new products must continually be developed to meet specifications and regulatory demands as well as customer needs. Zurn Elkay's products are known in the industry for such innovation. Our innovation is focused on introducing products that provide incremental value to our end customer and help enable our customers achieve their sustainability goals by focusing innovation on products that save water, use less energy, and other sustainable attributes.

In fiscal 2018, we launched our digital strategy for a customer productivity platform based on the integration of innovative Industrial Internet of Things (IIoT) and e-commerce technologies with Zurn Elkay's leading portfolio of products. Our secure online portal, plumbSMART™, allows for real-time insights from our Connected Products including wireless monitoring of usage trends, water consumption, possible issues and alerts through digitally-connected product solutions that can be retrofitted to the installed base of our products. This information is used by our customers' operations and maintenance staff through their facility and automation control systems and cloud-based portals to minimize unplanned system downtime and improve the productivity and safety of their operations.

Suppliers and Raw Materials

The principal materials used in our manufacturing processes are commodities and components available from numerous sources. The key materials used in our manufacturing activities include: brass, castings, copper, zinc, stainless steel, forgings, plate steel, high-performance engineered plastic and resin. Our global sourcing strategy is to maintain alternate sources of supply for our important materials and components wherever possible.

Historically, we have been able to successfully source materials, and consequently are not dependent on a single source for any significant raw material or component. As a result, we believe there is a readily available supply of materials in sufficient quantity from a variety of sources to serve both our short-term and long-term requirements. Additionally, we have not experienced any significant shortage of our key materials and have not historically engaged in hedging transactions for commodity supplies. We generally purchase our materials on the open market.

In addition to our domestic manufacturing facilities, we maintain a global network of independent sources that manufacture high quality, lower-cost component parts for our products. These sources fabricate parts to our specifications using our proprietary designs, which enables us to focus on product engineering, assembly, testing and quality control. By closely monitoring these sources and through extensive product testing, we are able to maintain product quality and be a cost-competitive producer of commercial and institutional products.

Backlog

Our backlog of unshipped orders was approximately $42 million and $70 million as of December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022, our backlog is all expected to ship during the year ending December 31, 2023. See Item 1A Risk Factors of this report for more information on the risks associated with backlog.

Seasonality

Demand for our products is primarily driven by institutional and commercial building activity, remodeling and retrofit opportunities, and to a lesser extent, new home starts as well as waterworks expansion. Accordingly, weather has an impact on the seasonality of certain end markets. With the exception of our remodeling and retrofit opportunities, weather is an important variable as it significantly impacts construction. Spring and summer months in the United States and Canada represent the main construction season with increased construction in the institutional, commercial, and waterworks markets, as well as new housing starts. As a result, sales generally decrease slightly in the first and fourth quarters as compared to the second and third quarters of the calendar year.

Our business also depends upon general economic conditions and other market factors beyond our control, and we serve customers in cyclical industries. As a result, our operating results have been, and in the future likely will be, negatively affected during economic downturns. See Item 1A Risk Factors of this report for information on the risks associated with general economic conditions.

Human Capital Management

As of December 31, 2022, we had approximately 2,700 employees, of whom approximately 2,000 were employed in the United States. Approximately 190 of our United States employees are represented by labor unions. We are currently party to four collective bargaining agreements in the United States with expiration dates in November 2023, October 2024, and June 2026. We believe we have a strong relationship with our employees, including those represented by labor unions.

Zurn Elkay strives to attract, retain and develop the talent necessary to meet our goals. Our Human Resources programs are designed to, among other aims, foster diversity and inclusion, develop talent for critical roles and leadership positions, reward and support associates through competitive compensation and benefits, and promote the health and safety of our associates.

Diversity and Inclusion: We are committed to fostering, cultivating and preserving a culture of diversity and inclusion where our associates are engaged and fulfilled. We recognize and value our associates for the unique perspectives they bring to Zurn Elkay – from different ages, ethnic and cultural backgrounds, sexual orientation, gender identity and expression, veteran status and abilities, including individuals who bring diverse opinions, experience and leadership styles to their work at Zurn Elkay. Inclusion is built into our key human resources programs and processes. We believe this collective diversity makes our business stronger.

Training and Talent Development: We are committed to having a workplace that fosters learning, development and innovation. Our leadership team conducts a robust program of employee engagement and we have invested in the personal and professional development of our employees. Each year all employees are trained on various policies and procedures along with matters specific to their respective roles within the organization. We monitor metrics to ensure the health of our company culture and alignment with our values and strategic business priorities. Each year, we survey our employees to better understand what matters most to them. We also strive to provide competitive compensation and benefits for our associates.

Health and Safety: The safety of our associates is a top priority. To be our best and maintain integrity in everything we do, we strive to provide associates with the right tools and resources. Through continual training and engaging associates and visitors in addressing safety issues, we have reduced our Total Recordable Incident Rate ("TRIR") by 24% when compared to the combined Zurn Elkay rate for calendar year 2021 and also reduced our Lost Time Incident Rate ("LTIR") by 38% over the same period. At 1.21 TRIR and 0.37 LTIR per 100 full-time workers, we are better than best-in-class benchmarks. We are also committed to improving the holistic health and well-being of our associates and have various programs in place to provide information, activities and support for assisting healthy choices.

Compliance with Laws and Regulations

Our operations and facilities are subject to extensive laws and regulations, including those related to trade taxes, government contracts, pollution and the protection of the environment, health and safety, including those governing, among other things, emissions to air, discharges to water, climate change, the generation, handling, storage, treatment and disposal of hazardous wastes and other materials, and the remediation of contaminated sites. A failure by us to comply with applicable requirements or the permits required for our operations could result in civil or criminal fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Some environmental laws and regulations impose requirements to investigate and remediate contamination on present and former owners and operators of facilities and sites, and on a potentially responsible party ("PRP") for sites to which such parties may have sent waste for disposal. Such liability can be imposed without regard to fault and, under certain circumstances, may be joint and several, resulting in one PRP being held responsible for the entire obligation. Liability may also include damages to natural resources. On occasion we are involved in such investigations and/or cleanup, and we have been named as a PRP in environmental matters and could be named in future matters.

We do not currently anticipate any significant additional expenditures related to maintaining compliance; however, due to the evolving nature of laws and regulations and changes thereto, there can be no assurance that current expenditures will be adequate or that violations will not occur.

Additional Information

The address of our principal executive office is 511 West Freshwater Way, Milwaukee, Wisconsin 53204. Our phone number is (855) 480-5050. Our website address is www.zurn-elkay.com. We make available free of charge, on or through our website, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission (the "SEC"), our annual and transition reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements on Schedule 14A, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Copies of any materials that we file with the SEC can also be obtained free of charge through the SEC's website at www.sec.gov. In addition, our website includes (i) the charters for the Audit Committee, Nominating and Corporate Governance Committee, Compensation Committee, and Environmental, Social and Governance Committee of our Board of Directors; (ii) our Corporate Governance Guidelines; and (iii) our Code of Business Conduct and Ethics. We will also post on our website any amendments to these documents, and information about any waivers granted to directors or executive officers with respect to our Code of Ethics. Our website and the information contained on or connected to that site are not incorporated by reference into this Form 10-K.

ITEM 1A. RISK FACTORS.

The risks described below are not the only risks facing Zurn Elkay. Additional risks and uncertainties not currently known to us, or those risks we currently view to be immaterial, may also materially and adversely affect our business, financial condition or results of operations. In addition, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for a further discussion of some of the factors that could affect future results. If any of these risks materialize, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

Strategic Risks

Economic and financial market weakness, as well as overall challenging market cycles, may particularly impact the markets we serve, and, as a result may adversely affect our financial condition or results of operations.

Our business operations may be adversely affected by volatility and weaknesses in the overall economy and financial markets. Weak, challenging or volatile economic conditions in the end markets, businesses or geographic areas in which we sell our products typically reduces demand for our products and results in a decrease in sales volume.

Our financial performance depends, in large part, on conditions in the markets that we serve in the U.S. and, to a lessor extent, the global economy generally. Some of the end markets we serve are highly cyclical, and some at times have experienced greater cyclicality than others. Any sustained weakness in demand or downturn or uncertainty in the economy, could materially reduce our net sales and profitability.

For example, sales to the construction industry are driven by trends in commercial, institutional, and residential construction, housing starts and trends in residential repair and remodeling. Consumer confidence, employment rates, weather conditions, interest rates, credit standards and availability of consumer credit and income levels play a significant role in driving demand in commercial and residential construction, repair and remodeling sectors. A drop or weakness in consumer confidence, prolonged adverse weather conditions, lack of availability or increased cost of credit, tightened credit standards or increased unemployment could materially impact demand for and sales of our products and/or result in downward pressure on product pricing and our profit margins, any or all of which could adversely affect our financial results.

Volatility and disruption of financial markets could limit the ability of our customers to obtain adequate financing to maintain operations and may cause them to terminate existing purchase orders, reduce the volume of products they purchase from us in the future or impact their ability to pay their receivables. Adverse economic and financial market conditions may also cause our suppliers to be unable to meet their commitments to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing or eliminating the amount of trade credit available to us.

The markets we serve are highly competitive; an inability to effectively compete would adversely affect our business, financial condition and results of operations.

We operate in highly competitive markets. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate. Some of our competitors are larger and may have greater financial and other resources than we do, and our competitors may adopt more aggressive sales policies and devote greater resources to the development, promotion and sale of their products than we do, all of which could result in a loss of customers and adversely affect our results of operations.

We compete against both large international and national rivals, as well as many regional competitors. Increased competition in any of the markets in which we operate could result in substantial downward pressure on product pricing and our profit margins, thereby adversely affecting our financial results. We cannot provide assurance that we will be able to maintain or increase the current market share of our products successfully in the future.

If we are unable to effectively manage risks associated with changing technology, product innovation and new product development, manufacturing techniques, distribution channels and business continuity, we may be at a competitive disadvantage.

The successful implementation of our business strategy requires us to continuously evolve our existing products and introduce new products to meet customers' needs in the industries we serve. Our products are characterized by stringent performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. If we fail to meet these requirements, our business and ability to compete effectively could suffer. We believe our customers rigorously evaluate their suppliers on a number of factors, including product quality, price competitiveness, technical and manufacturing expertise, development and product design capability, new product innovation, reliability and timeliness of delivery, operational flexibility, customer service and overall management. Our ongoing success depends on our ability to continue to meet our customers' changing specifications with respect to these criteria. We cannot ensure that we will be able to address technological advances or introduce new products that may be necessary to remain competitive within our businesses. Further, such new products and technologies may create additional exposure or risk. We cannot ensure that we can adequately protect our own technological developments to produce a sustainable competitive advantage. Furthermore, we may be subject to business continuity risk in the event of an unexpected loss of a material facility or operation. We cannot ensure adequate insurance protection against such a loss.

We may be unable to realize intended benefits from our ongoing Supply Chain Optimization and Footprint Repositioning initiatives, restructuring and divestiture efforts, and as a result our profitability may be hurt or our business otherwise might be adversely affected.

To operate more efficiently, control costs and refine our business focus, we periodically undertake restructuring plans, which can include facility consolidations, product rationalizations, workforce reductions and other cost reduction initiatives. We also periodically choose to divest operations or product lines that we no longer believe are additive or complementary to our business or strategic direction. These plans are intended to reduce operating costs, to modify our footprint to reflect changes in the markets we serve, to reflect changes in business focus, to strengthen focus on our core business and/or to address overall manufacturing overcapacity, including as a result of acquisitions. If we do not successfully manage our current restructuring activities, or any other restructuring activities or divestitures that we may undertake in the future, expected efficiencies, benefits and cost savings might be delayed or not realized, and our operations and business could be disrupted.

In addition, as a result of such actions, we expect to incur restructuring expenses and other charges (including, for example, potential impairment charges related to fixed assets, goodwill and other intangibles), which may be material, and may exceed our estimates. Several factors could cause restructuring or divestiture activities to adversely affect our business, financial condition and results of operations. These include potential disruption of our operations, customer relationships and other aspects of our business. Employee morale and productivity could also suffer and may result in unwanted employee attrition. These activities require substantial management time and attention and may divert management from other important work or result in a failure to meet operational targets. Divestitures may also result in obligations to buyers or other parties that could have a financial effect after the transaction is completed. Moreover, we could make changes to, or experience delays in executing, any restructuring or divestiture plans, any of which could cause further disruption and additional unanticipated expense.

An inability to effectively integrate acquisitions, mergers or other business combinations could adversely affect our business, financial condition, results of operations or cash flows.

Acquisitions, mergers and other business combinations are part of our growth strategy, and we have completed several in the last few years. We cannot ensure that we will be able to complete any future acquisition, successfully integrate any acquired business or operations, or accomplish our strategic objectives as a result of any such acquisition.

Acquisitions are often undertaken to improve the operating results of either or both of the acquirer and the acquired company and we cannot ensure that we will be successful in this regard. We cannot provide any assurance that we will be able to fully realize the intended benefits from our acquisitions. Acquisitions involve risks, including the possible inability to integrate an acquired business into our operations, potential failure to realize anticipated benefits, diversion of management's attention, issues in customer transitions, potential inadequacies of indemnities and other contractual remedies and unanticipated problems, risks or liabilities, including environmental, some or all of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Refer to Risks Related to the Merger with Elkay section below for additional considerations.

The loss or financial instability of any significant customer or customers accounting for our backlog could adversely affect our business, financial condition, results of operations or cash flows.

A substantial part of our business is concentrated with a few customers, and we have certain customers that are significant to our business. During the year ended December 31, 2022, our top five customers accounted for approximately 40% of our consolidated net sales, with one customer accounting for 22% of consolidated net sales. The loss of one or more of these customers or other major customers, or a deterioration in our relationship with any of them could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our contracted backlog is comprised of future orders for our products from a broad number of customers. Defaults by any of the customers that have placed significant orders with us, whether because of bankruptcy, illiquidity, operational problems or otherwise, could have a significant adverse effect on our net sales, profitability and cash flow. As of December 31, 2022, all of our backlog was scheduled to ship during the year ending December 31, 2023.

We rely on independent distributors and independent sales representatives. Termination of one or more of our relationships with any of our key independent distributors and / or a substantial number of independent representatives, or an increase in their sales of our competitors' products could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We depend on 1,070 independent sales representatives and approximately 75 third-party warehouses to distribute our products. In fiscal 2022, our three largest independent distributors generated approximately 35% of our consolidated net sales with the largest accounting for 22% of consolidated net sales.

The loss of one of our key distributors or of a substantial number of our other distributors or independent sales representatives, or an increase in the distributors' sales of competitors' products to our customers could have a material adverse effect on our business, financial condition, results of operations or cash flows.

The inability to adequately protect intellectual property, or defend against infringement claims brought against us, could adversely affect our business.

We attempt to protect our intellectual property through a combination of patent, trademark, copyright and trade secret protection, as well as third-party nondisclosure and assignment agreements. We cannot assure that any of our applications for protection of our intellectual property rights will be approved and successfully maintained or that our competitors will not infringe or successfully challenge our intellectual property rights. We also rely on unpatented proprietary technology and trade secrets. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we require employees, consultants and advisors to enter into confidentiality agreements. We cannot assure that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure. If we are unable to maintain the proprietary nature of our technologies, our ability to sustain margins on some or all of our products may be affected, which could have a material adverse effect on our business.

In addition, in the ordinary course of our operations, we periodically seek to enforce our intellectual property rights through litigation or are subject to third party litigation claiming infringement, including in respect of some of our more profitable products. An adverse ruling or other unfavorable outcome in any such litigation could have a material adverse effect on our business, reputation, financial condition, results of operations or cash flows.

Operational Risks

Increases in the cost, and/or the availability, of raw materials, including as a result of tariffs or other trade protection measures, could adversely affect our business, financial condition, results of operations or cash flows.

Our manufacturing processes depend on third parties for raw materials, in particular bar steel, brass, castings, copper, forgings, high-performance engineered plastic, plate steel, resin, sheet steel and zinc, as well as petroleum and other carbon-based fuel products. While we strive to maintain alternative sources for most raw materials, our business is subject to the risk of price fluctuations, including as a result of, or in reaction to, tariffs, import duties, or other trade protection measures instituted by the U.S. or other countries, inefficiencies in the event of a need to change our suppliers, and delays in the delivery of and potential unavailability of our raw materials. Also, trade wars or outbreaks of infectious diseases, could impact the cost or availability of goods or materials, both imported and domestic, or adversely affect demand for our products. Any such price fluctuations or delays, if material, could harm our profitability or operations. In addition, the loss of a substantial number of suppliers could result in material cost increases or reduce our production capacity. In addition to suppliers we also rely on third party shippers to assist in transportation of our product throughout the supply chain. Reduced availability of transportation and the associated cost increases could adversely impact our profitability or operations.

We do not typically enter into hedge transactions to reduce our exposure to purchase price risks and cannot ensure that we would be successful in recouping any increases if these risks were to materialize. In addition, if we are unable to continue to purchase our required quantities of raw materials on commercially reasonable terms, or at all, or if we are unable to maintain or enter into new purchase contracts for our larger commodities, our business operations could be disrupted and our profitability could be adversely impacted.

The ongoing updates to our Enterprise Resource Planning ("ERP") systems, as well as failures of our data security and information technology infrastructure or cyber security breaches, could cause substantial business interruptions and adversely affect our business.

Utilizing a phased approach, we continue to update our ERP systems across our Zurn Elkay operations. If these updates are ineffective, we could incur substantial business interruptions, including the inability to perform routine business transactions, which could have a material adverse effect on our financial performance. Further, these updates may not result in the benefits we intend or be timely implemented.

In addition, we depend heavily on information technology infrastructure to manage our business objectives and operations, support our customers' requirements and protect sensitive information. There have been significant and increasing instances of data and security breaches, malicious interference with technology systems and industrial espionage involving companies in numerous industries, including cloud providers, and cyber security threats are becoming more complex. Like other companies, we have experienced these types of threats; however, to date, we have not experienced a material threat or incident. In addition, at times a large percentage of our workforce may be working remotely in response to outbreaks of infectious disease, which may heighten these risks. While we have taken steps to maintain and enhance our cyber security by implementing additional security technologies, internal controls, network and data center resiliency, redundancy and recovery processes, upgrading our remote work environment and by obtaining insurance coverage, these measures may be inadequate. As a result, any inability by us to successfully manage our information systems, or respond effectively to any attack on or interference with our systems, including matters related to system and data security, privacy, reliability, compliance, performance and access, problems related to our systems caused by natural disasters, security breaches or malicious attacks, and any inability of these systems to fulfill their intended business purpose, could impede our ability to record or process orders, manufacture and ship in a timely manner, account for and collect receivables, protect sensitive data of the Company, our customers, our employees, our suppliers and other business partners, comply with our third party obligations of confidentiality and care, or otherwise carry on business in the normal course. Any such events could require costly remediation beyond levels covered by insurance and could cause us to lose customers and/or revenue, including as a result of legal or regulatory claims or proceedings, or damage our reputation, any of which could have a material adverse effect on our business and operating results.

We are also subject to an increasing number of evolving data privacy and security laws and regulations that impose requirements on us. We collect, store, access and otherwise process various types of confidential or sensitive data, including proprietary business information, personal data and other information that is subject to privacy and security laws, regulations and/or customer-imposed controls. Failure to comply with such laws and regulations could result in the imposition of fines, penalties and other costs.

Our inability to attract and retain key personnel, as well as challenges with respect to the management of human capital resources, in a highly competitive industry may adversely affect our business.

Our ongoing success depends on our ability to recruit, retain and develop highly skilled management and key personnel, as well as our ability to effectively manage human capital resources. Competition for talented and skilled individuals in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel, or to effectively implement successions for existing personnel. If we fail to retain and recruit the necessary personnel or arrange for successors to key personnel, our business could materially suffer.

Increased frequency of weather events could disrupt construction activity and adversely affect the demand for our products.

Demand for our products is primarily driven by commercial construction activity, remodeling and retrofit opportunities, and to a lesser extent, new home starts. Weather is an important variable affecting financial performance as it significantly impacts construction activity. Adverse weather conditions, such as prolonged periods of cold or rain, blizzards, hurricanes and other severe weather patterns, the frequency of which might be affected by climate change, could delay or halt construction and remodeling activity, which could have a negative effect on our business. For example, an unusually severe or prolonged winter can lead to reduced or delayed construction activity which could magnify the seasonal decline in our net sales and earnings during the winter months and hamper the typical seasonal increase in net sales and earnings during the spring months.

The long-term effect of climate change could decrease demand for certain of our products.

Climate change may impact rainfall and water availability in many areas in unpredictable and different ways, which may change the way building owners and municipalities manage drinking, waste and storm water and may lead to new or modified regulations that may impact the market for our products. In certain areas, these changes could lead to a reduction in demand for certain of our products, although it also could increase demand for other of our products. The overall effect of this could be to reduce our sales and addressable market and/or alter our product sales mix in ways that reduce our margins, either of which could adversely impact our results of operations.

The physical impacts of climate change may materially adversely affect our business and financial condition.

The physical impact of climate change on our operations are highly uncertain and could differ amongst the geographic regions of relevant markets and areas of operation. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. The impact of climate change may materially and adversely affect the cost, production and financial performance of our operations. Further, any impacts to our business and financial condition as a result of climate change are likely to occur over an extended period of time and are therefore difficult to quantify with any degree of specificity. For example, extreme weather events may result in adverse physical effects on portions of our infrastructure, which could disrupt our supply chain and ultimately our business operations. In addition, disruption of transportation and distribution systems could result in reduced operational efficiency and customer service interruption. Climate related events have the potential to disrupt our business, including the business of our suppliers, and may cause us to experience higher attrition, losses and additional costs to resume operations.

Our business and operations, and the operations of our suppliers, business partners and customers, may be adversely affected by future outbreaks of infectious diseases.

Future outbreaks of infectious diseases, including further developments in the COVID pandemic, may result in widespread or localized health crises that adversely affect general commercial activity and the economies and financial markets of the countries and localities in which we operate, sell, and purchases goods and services. Any outbreak of infectious disease poses the risk that we or our employees, contractors, suppliers, customers, transportation providers, and other business partners may be prevented or impaired from conducting ordinary course business activities for an indefinite period of time, either at specific branches or on a broader scale, including due to shutdowns necessitated for the health and well-being of our employees, the employees of our business partners, or shutdowns that may be requested or mandated by governmental authorities. In addition, our suppliers, business partners and customers may also experience similar negative impacts from an outbreak of infectious disease. Global supply chains may be disrupted, causing shortages, which could impact our ability to manufacture or supply our products. Also, we could in the future experience increased compensation expenses associated with employee recruiting and employee retention to the extent employment opportunities multiply post-pandemic, causing the search for and retention of talent to become more competitive. This disruption of our employees, distributors, suppliers and customers may impact our sales and future operating results.

The unpredictable ebbing and flowing of new infectious diseases worldwide may continue to adversely impact our business, operations, suppliers and customers for the foreseeable future. Equally unpredictable are the responses of national and local governments and health authorities in affected regions to reduce community spread and protect employees, which may include mandatory shutdowns or limitations on all or certain types of business operations. The ultimate impact of an infectious disease outbreak on our business, depends on the severity, location and duration of outbreaks, and the actions of government and health official in response to the outbreaks, none of which is predictable at this time.

Financial Risks

Our debt levels could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, inhibit us from making beneficial acquisitions, adversely impact our ability to implement our capital allocation strategy and prevent us from making debt service payments.

As a leveraged company, our ability to generate sufficient cash flow from operations to make scheduled payments on our debt will depend on a range of economic, competitive and business factors, many of which are outside our control. Our business may not generate sufficient cash flow from operations to meet our debt service and other obligations, and currently anticipated cost savings and operating improvements may not be realized on schedule, or at all. If we are unable to meet our expenses and debt service and other obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We may not be able to refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations or to refinance our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our indebtedness could also have other important consequences with respect to our ability to manage and grow our business successfully, including the following:

- it may limit our ability to borrow money for our working capital, capital expenditures, strategic initiatives, acquisitions or other purposes;
- it may make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under our credit agreement and our other indebtedness;
- a portion of our cash flow from operations will be dedicated to the repayment of our indebtedness and so will not be available for other purposes;
- it may limit our flexibility in planning for, or reacting to, changes in our operations or business, or in taking advantage of strategic opportunities;
- at times we may be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- it may make us more vulnerable to downturns in our business or the economy;

- it may restrict us from making strategic acquisitions or divestitures, introducing new technologies or exploiting business opportunities; and
- along with the financial and other restrictive covenants in the documents governing our indebtedness, among other things, may limit our ability to borrow additional funds, make acquisitions or capital expenditures, acquire or dispose of assets or take certain of the actions mentioned above, or adversely impact our ability to implement our capital allocation strategy (which includes paying dividends on our common stock), any of which could restrict our operations and business plans.

Furthermore, a substantial portion of our indebtedness, including the senior secured credit facilities, bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates, including the London Interbank Offered Rate ("LIBOR"). The United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR. On March 5, 2021, ICE Benchmark Administration ("IBA") confirmed it would cease publication of 1 Week and 2 Month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, but it would not cease publication of Overnight, 1, 3, 6 and 12 Month USD LIBOR settings until immediately following the LIBOR publication on June 30, 2023. The extended cessation date for most USD LIBOR tenors will allow for more time for existing legacy USD LIBOR contracts to mature and provide additional time to continue to prepare for the transition from LIBOR.

The Alternative Reference Rates Committee ("ARCC"), which was convened by the Board of Governors of the Federal Reserve and the Federal Reserve Bank of New York, has identified the Secured Overnight Financing Rate ("SOFR") as the recommended alternative rate for USD LIBOR. The composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repurchase agreement market financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR in two key respects. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR or any alternative reference rate will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events.

The agreement governing our senior secured credit facilities provides that if LIBOR becomes unavailable, or the Financial Conduct Authority determines that LIBOR is not a representative index, then SOFR will automatically replace LIBOR for all purposes of such agreement. Although the consequences of these developments cannot be predicted at this time, should LIBOR, SOFR, or any other alternative reference rate no longer be available, the rates under our variable rate indebtedness could increase and access to capital could be limited. Additionally, we may continue to be subject to risk on outstanding instruments which rely on LIBOR. For example, if a contract or instrument is not transitioned to a new reference rate and LIBOR ceases to exist, we may experience increased interest rate risk. In addition, we may be dependent on third parties to upgrade their systems, software, and other critical functions to assist in our orderly transition from LIBOR. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk for additional information on our debt that is subject to the LIBOR rate.

Also, in spite of the limitations in our credit agreement, we may still incur significantly more debt, which could intensify the risks described above on our business, results and financial condition. For more information about our indebtedness, see Item 8, Note 11, Long-Term Debt.

The agreements governing our financing arrangements impose certain operating and financial restrictions, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our credit agreement contains various covenants that limit or prohibit our ability (subject to certain exceptions), among other things, to:

- incur or guarantee additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase, retire or make distributions in respect of our capital stock or subordinated indebtedness or make other restricted payments;
- make certain loans, acquisitions, capital expenditures or investments;
- sell certain assets, including stock of our subsidiaries;
- enter into sale and leaseback transactions;
- create or incur liens;
- consolidate, merge, sell, transfer or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

These agreements contain covenants that restrict our ability to take certain actions, such as incurring additional debt, if we are unable to meet defined specified financial ratios, which could result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. Failure to comply with certain covenants in these agreements could result in a default. For more information, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

The restrictions contained in the credit agreement could:

- limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans;
- restrict our ability to repurchase shares of our common stock and/or adversely impact our ability to implement capital allocation strategy;
- adversely affect our ability to finance our operations, to enter into strategic acquisitions, to fund investments or other capital needs or to engage in other business activities that would be in our interest; and
- limit our access to the cash generated by our subsidiaries.

Upon the occurrence of an event of default under the credit agreement, the lenders could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under the senior secured credit facilities could proceed against the collateral granted to them to secure the senior secured credit facilities on a first- priority lien basis. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, such acceleration could have a material adverse effect on our business, financial condition, results of operations or cash flows. For a more detailed description of the limitations on our ability to incur additional indebtedness, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

Our goodwill and intangible assets are valued at an amount that is high relative to our total assets and in excess of our stockholders equity.

As of December 31, 2022, our goodwill and intangible assets totaled $777.0 million and $1,009.7 million, respectively, and represent a substantial portion of our assets. These assets result from our acquisitions, representing the excess of cost over the fair value of the tangible net assets we have acquired. We assess at least annually whether there has been impairment in the value of our goodwill and indefinite-lived intangible assets. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes to the use of our assets, changes in the structure of our business, divestitures, market capitalization declines, or increases in associated discount rates may impair our goodwill and other intangible assets. Any determination requiring the impairment of goodwill or intangible assets would negatively affect our results of operations, particularly in the period in which we record any related charges, and financial condition.

Refer to Risks Related to the Merger with Elkay section below for additional considerations.

Our required cash contributions to our pension plans may increase further and we could experience a material change in the funded status of our defined benefit pension plans and the amount recorded in our consolidated balance sheets related to those plans. Additionally, our pension costs could increase in future years.

The funded status of the defined benefit pension plans depends on such factors as asset returns, market interest rates, legislative changes and funding regulations. If the returns on the assets of any of our plans were to decline in future periods, if market interest rates were to decline, if the Pension Benefit Guaranty Corporation ("PBGC") were to require additional contributions to any such plans as a result of acquisitions or if other actuarial assumptions were to be modified, our future required cash contributions and pension costs to such plans could increase. Any such increases could have a material and adverse effect on our business, financial condition, results of operations or cash flows.

The need to make contributions, which may be substantial, to such plans may reduce the cash available to meet our other obligations, including our obligations under our borrowing arrangements or to meet the needs of our business. In addition, the PBGC may terminate our U.S. defined benefit pension plans under limited circumstances, including in the event the PBGC concludes that the risk may increase unreasonably if such plans continue. In the event one of our U.S. defined benefit pension plans is terminated for any reason while it is underfunded, we could be required to make an immediate payment to the PBGC of all or a substantial portion of such plan's underfunding, as calculated by the PBGC based on its own assumptions (which might result in a larger obligation than that based on the assumptions we have used to fund such plan), and the PBGC could place a lien on material amounts of our assets.

Legal and Compliance Risks

Our failure to comply with government regulations and requirements, third-party certification requirements and policies and standards driven by our customers or other constituencies, including those related to social responsibility, could adversely affect our reputation, business and results of operations.

In addition to complying with laws and applicable government regulations and requirements, prevailing industry standards, competitive pressures and/or our customers may require us to comply with further quality, social responsibility, climate-related or other business policies or standards, before customers and prospective customers commence, or continue, doing business with us. These expectations, policies and standards may be more restrictive than current laws and regulations as well as our own pre-existing policies; they may be customer-driven, established by the industry sectors in which we operate or imposed by third-party organizations or other constituencies.

Our compliance with these policies, standards and third party certification requirements could be costly and could in some cases require us to change the way in which we operate. In addition, if we fail to comply, or if our compliance increases our costs and/or restricts our ability to do business as compared to our competitors that do not adhere to such standards, we could experience an adverse effect on our customer relationships, reputation, operations, cost structure and/or profitability.

Regulatory and legislative developments related to climate change, may materially adversely affect our business and financial condition.

Numerous governmental bodies have introduced or are contemplating legislative and regulatory changes in response to various climate change interest groups and the impact of climate change. Legislation and increased regulation relating to climate change and the transition to a low carbon economy could impose significant costs on us and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting, and other costs to comply with such regulations. Any future climate change related regulations could also negatively impact our ability to compete with companies situated in areas not subject to such requirements. Given the political significance and uncertainty around the impact of climate change and how it should be addressed, we cannot predict how legislation and regulation will affect our financial condition, operating performance and ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about impacts on climate change by us could harm our reputation. Any of the foregoing could result in a material adverse effect on our business and financial condition.

We are subject to changes in legislative, regulatory and legal developments involving taxes.

We are subject to U.S. federal and state, and foreign, income, payroll, property, sales and use, value-added, fuel and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities may require significant judgment in determining the appropriate provision and related accruals for these taxes; and as a result, such changes could result in substantially higher taxes and, therefore, could have a significant adverse effect on our results or operations, financial conditions and liquidity.

We may incur significant costs for environmental compliance and/or to address liabilities under environmental laws and regulations, and our reputation may be adversely affected.

Our operations and facilities worldwide are subject to extensive laws and regulations related to pollution and the protection of the environment, health and safety, including those governing, among other things, emissions to air, discharges to water, the generation, handling, storage, treatment and disposal of hazardous wastes and other materials, and the remediation of contaminated sites. A failure by us to comply with applicable requirements or the permits required for our operations could result in civil or criminal fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions, as well as cause damage to our reputation.

Some environmental laws and regulations impose requirements to investigate and remediate contamination on present and former owners and operators of facilities and sites, and on potentially responsible parties ("PRPs") for sites to which such parties may have sent waste for disposal. Such liability can be imposed without regard to fault and, under certain circumstances, may be joint and several, resulting in one PRP being held responsible for the entire obligation. Liability may also include damages to natural resources. On occasion we are involved in such investigations and/or cleanup, and also have been or could be named as a PRP in environmental matters.

The discovery of additional contamination, including at acquired facilities, the imposition of more stringent environmental, health and safety laws and regulations, including cleanup requirements, disputes with our insurers or the insolvency of other responsible parties could require us to incur significant capital expenditures or operating costs materially in excess of our accruals. Future investigations we undertake may lead to discoveries of contamination that must be remediated, and decisions to close facilities may trigger remediation requirements that are not currently applicable. We may also face liability for alleged personal injury or property damage due to exposure to hazardous substances used or disposed of by us, contained within our current or former products, or present in the soil or groundwater at our current or former facilities. We could incur significant costs in connection with such liabilities. See Item 8, Note 18, Commitments and Contingencies for additional information.

Certain subsidiaries are subject to litigation, including numerous asbestos and product liability claims, which could adversely affect our business, reputation, financial condition, results of operations or cash flows.

Certain subsidiaries are co-defendants in various lawsuits in a number of U.S. jurisdictions alleging personal injury as a result of exposure to asbestos that was used in certain components of our products. The uncertainties of litigation and the uncertainties related to insurance and indemnification coverage make it difficult to accurately predict the ultimate financial effect of these claims. If our insurance or indemnification coverage is not adequate to cover our potential financial exposure, our insurers dispute their obligations to provider coverage or the actual number or value of asbestos-related claims differs materially from our existing estimates, we could incur material costs that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition, we may be subject to product liability claims if the use of our products, or the exposure to our products or their raw materials, is alleged to have resulted in injury or other adverse effects. We currently maintain product liability insurance coverage but we cannot assure that we will be able to obtain such insurance on commercially reasonable terms in the future, if at all, or that any such insurance will provide adequate coverage against claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. In addition, our business depends on the strong brand reputation we have developed; if this reputation is damaged as a result of a product liability claim, it may be difficult to maintain our pricing positions and market share with respect to our products. Therefore, an unsuccessful product liability defense could have a material adverse effect on our business, financial condition, results of operations or cash flows. See Item 8, Note 18, Commitments and Contingencies for additional details.

Risks Related to the Spin-Off Transaction

If the Spin-Off Transaction does not qualify as a tax-free reorganization and distribution for purposes of U.S. federal income taxes, we may be subject to substantial additional taxes.

In connection with the Spin-Off Transaction, we obtained a tax opinion and a private letter ruling from the IRS ("IRS Ruling") as to certain aspects relevant to treatment of the various steps of the transaction as tax-free to us and our shareholders for U.S. federal income tax purposes. The tax opinion and IRS Ruling are based on certain factual representations and assumptions and covenants of the parties to the transaction. If any of the factual representations and assumptions are materially false or incorrect, or one or more of the relevant covenants are breached, the validity of the tax opinion and IRS Ruling could be impaired. Furthermore, a tax opinion only represents counsel's best legal judgment, and is not binding on the IRS or the courts, which may disagree with the opinion.

If the IRS determines that some or all of the transactions comprising the Spin-Off Transaction are taxable to us, we and our shareholders at the time of the transaction could be subject to significant additional U.S federal and state income taxes. In certain circumstances, we would be entitled to indemnity from Regal Rexnord Corporation for all or a portion of such additional tax, but there is no assurance that Regal Rexnord Corporation would have the ability to satisfy any such indemnity obligation.

As a result of the Spin-Off Transaction, we are subject to certain limitations on Company actions for two years, including certain business combinations, that might otherwise be advantageous.

Under relevant agreements governing the Spin-Off Transaction, we are prohibited from taking certain actions during the two-year period following the closing that could cause aspects of the Spin-Off Transaction to fail to qualify for their intended tax treatment. If we breach or are deemed to have breached these restrictions, the tax-free treatment of some or all of the Spin-Off Transaction could be impaired, and we could be subject to substantial additional U.S. federal and state income taxes. These restrictions might interfere with our current business and prevent us from taking advantage of opportunities that might be advantageous.

Risks Related to the Merger with Elkay

We recorded substantial goodwill and other intangible assets as a result of the Merger that could become impaired and result in material non-cash charges to our results of operations in the future.

We account for the Merger as an acquisition of a business in accordance with GAAP. Under the acquisition method of accounting, the assets and liabilities of Elkay and its subsidiaries have been recorded, as of the completion of the Merger, at their respective fair values. Our reported financial condition and results of operations for periods after completion of the Merger reflect Elkay's balances and results after completion of the Merger but have not been restated retroactively to reflect the historical financial position or results of operations of Elkay and its subsidiaries for periods prior to the Merger. Under the acquisition method of accounting, the total purchase price was allocated to Elkay's tangible assets and liabilities and identifiable intangible assets based on their fair values as of the date of completion of the Merger. The excess of the purchase price over those fair values, if any, was recorded as goodwill. To the extent the value of goodwill or intangibles, if any, becomes impaired in the future, we may be required to incur material non-cash charges relating to such impairment. Our operating results may be significantly impacted from both the impairment and the underlying trends in the business that triggered the impairment.

We may be unable to successfully integrate Elkay's business into our business or achieve the anticipated benefits of the Merger.

The success of the Merger depends, in part, on our ability to realize the anticipated benefits and cost savings from adding Elkay's businesses, and we cannot assure successful integration or realization of the anticipated benefits of the Merger. Potential difficulties that may be encountered in the integration process which may result in Zurn Elkay performing differently than expected include, among others:

- the inability to successfully integrate Elkay in a manner that permits the achievement of full revenue, expected cash flows and cost savings anticipated from the Merger;
- not realizing anticipated synergies;
- integrating personnel from Elkay and the loss of key employees;
- potential unknown liabilities and unforeseen expenses;
- integrating relationships with customers, vendors and business partners;
- performance shortfalls as a result of the diversion of management's attention caused by completing the Merger and integrating Elkay's operations; and
- the disruption of, or the loss of momentum in, our ongoing business or inconsistencies in standards, controls, procedures and policies.

Our results may suffer if we do not effectively manage our expanded operations following the Merger.

Following the Merger, the size of our business has increased significantly. Our future success will depend, in part, on our ability to manage this expanded business, resulting in risks and uncertainties, including the need to efficiently and timely integrate the operations and business of Elkay, to combine systems and management controls, and to integrate relationships with customers, vendors and business partners.

Sales of substantial amounts of the Zurn Elkay Common Stock in the open market by the former Elkay stockholders could depress the trading price of our common stock.

The former Elkay stockholders may wish to dispose of some or all of the Zurn Elkay Common Stock that they received in the Merger. These sales may adversely affect the trading price of our Common Stock. Certain of these stockholders, who received Zurn Elkay shares in the Merger aggregating approximately 22% of our outstanding common stock as of December 31, 2022, agreed not to sell or transfer their shares, subject to certain exceptions, prior to December 31, 2023.

Certain former stockholders of Elkay have registration rights, the exercise of which could adversely affect the market price of our Common Stock.

In connection with the Merger, the Company and certain stockholders of Elkay entered into a Registration Rights Agreement, pursuant to which such stockholders have a right to demand registration of one public offering within the first three years after the closing of the Merger, subject to certain minimum and maximum thresholds and other customary conditions. The existence and potential or actual exercise of such rights could adversely impact the market price of our Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of December 31, 2022, we had 40 principal manufacturing and warehouse facilities as set forth below:

		Total Square Feet	
Location	**Number of Facilities**	**Owned**	**Leased**
USA			
Arizona	1	—	46,100
California	3	157,500	315,300
Georgia	6	—	309,500
Illinois	6	590,500	578,800
North Carolina	4	392,200	28,200
Mississippi	1	—	140,400
Ohio	2	87,500	—
Pennsylvania	4	119,000	100,000
Texas	4	175,000	143,700
Utah	2	—	137,900
Virginia	1	253,400	—
International			
Canada	4	72,600	195,600
Mexico	1	106,100	
United Arab Emirates	1	—	6,000

We believe our principal manufacturing and warehouse facilities are suitable for our operations and provide sufficient capacity for our current and future anticipated needs.

ITEM 3. LEGAL PROCEEDINGS.

Information with respect to our legal proceedings is contained in Item 8, Note 18, Commitments and Contingencies.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

* * *

Information about our Executive Officers

The following table sets forth information concerning our executive officers as of the date of this report:

Name	Age	Position(s)	In Current Position(s) since
Todd A. Adams	52	Chairman of the Board and Chief Executive Officer	2020
Mark W. Peterson	51	Senior Vice President and Chief Financial Officer	2011
Sudhanshu Chhabra	56	Vice President - Zurn Elkay Business Systems	2018
Jeffrey J. LaValle	44	Vice President, General Counsel and Secretary	2022
Michael D. Troutman	56	Chief Information Officer	2007
Craig G. Wehr	58	Chief Operating Officer	2022

Information about the business experience of our executive officers during at least the past five fiscal years is as follows:

Todd A. Adams became our Chairman of the Board in 2020 and Chief Executive Officer in 2009. Mr. Adams joined us in 2004 as Vice President, Treasurer and Controller; he has also served as Senior Vice President and Chief Financial Officer and as President of the Water Management platform.

Mark W. Peterson became our Senior Vice President and Chief Financial Officer in 2011. Mr. Peterson previously served as Vice President and Controller of Zurn Elkay and as a divisional CFO. Mr. Peterson is a certified public accountant.

Sudhanshu Chhabra became Vice President – Zurn Elkay Business Systems in 2018. Mr. Chhabra was a sector President and Regional Executive - India from 2016 to 2018 after having joined Zurn Elkay in 2014 as President & Regional Executive for India and the Middle East. Prior to joining Zurn Elkay, Mr. Chhabra served in various positions with Danaher Corporation, a diversified manufacturer, most recently as President – Asia, Gilbarco Veeder-Root Inc. and as Managing Director – India, Gilbarco Veeder-Root Inc.

Jeffrey J. LaValle became our Vice President, General Counsel and Secretary in 2022. Mr. LaValle previously served as our Assistant General Counsel since 2013. Prior to joining Zurn Elkay, Mr. LaValle was a partner at Quarles & Brady LLP, an AmLaw 200 full-service law firm.

Michael D. Troutman became Zurn Elkay's Chief Information Officer at Zurn Elkay in 2007 and an executive officer in 2017. Before joining Zurn Elkay, he was with AT&T, Lucent, and Agere Systems in various senior information technology positions implementing global industry leading solutions and processes.

Craig G. Wehr became Chief Operating Officer of Zurn Elkay in 2022. Mr. Wehr previously served in various positions with Zurn Elkay since 1993, including as President of Zurn and Vice President / General Manager of Zurn Specification Drain Operations.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Shares of our common stock trade on the New York Stock Exchange under the ticker symbol “ZWS”. As of February 10, 2023, there were 33 holders of record of our common stock. We believe the number of beneficial owners of our common stock exceeds 25,000.

Dividend Policy

On February 3, 2022 and May 5, 2022 our Board of Directors declared a quarterly cash dividend on our common stock of $0.03 per share. On July 21, 2022, October 20, 2022, and February 1, 2023 our Board of Directors declared a quarterly cash dividend on our common stock of $0.07 per share. The decision whether to continue to pay dividends in the future will be made by our Board of Directors in light of conditions then existing, including factors such as our results of operations, financial condition and requirements, business conditions and covenants under any applicable borrowing agreements and other contractual arrangements.

Issuer Purchases of Equity Securities

In fiscal 2015, our Board of Directors approved a stock repurchase program (the "Repurchase Program") authorizing the repurchase of up to $200.0 million of our common stock from time to time on the open market or in privately negotiated transactions. On January 27, 2020, our Board of Directors approved increasing the remaining share repurchase authority under the Repurchase Program to $300.0 million. The Repurchase Program does not require us to acquire any particular amount of common stock and does not specify the timing of purchases or the prices to be paid; however, the program will continue until the maximum amount of dollars authorized has been expended or until it is modified or terminated by the Board. During the three and twelve months ended December 31, 2022, we repurchased approximately $24.7 million of our common stock. The remaining repurchase authority under the Repurchase Program at December 31, 2022 was $138.1 million.

Effective February 8, 2023, the Board approved an increase in the remaining share repurchase authority under the Repurchase Program to $500.0 million.

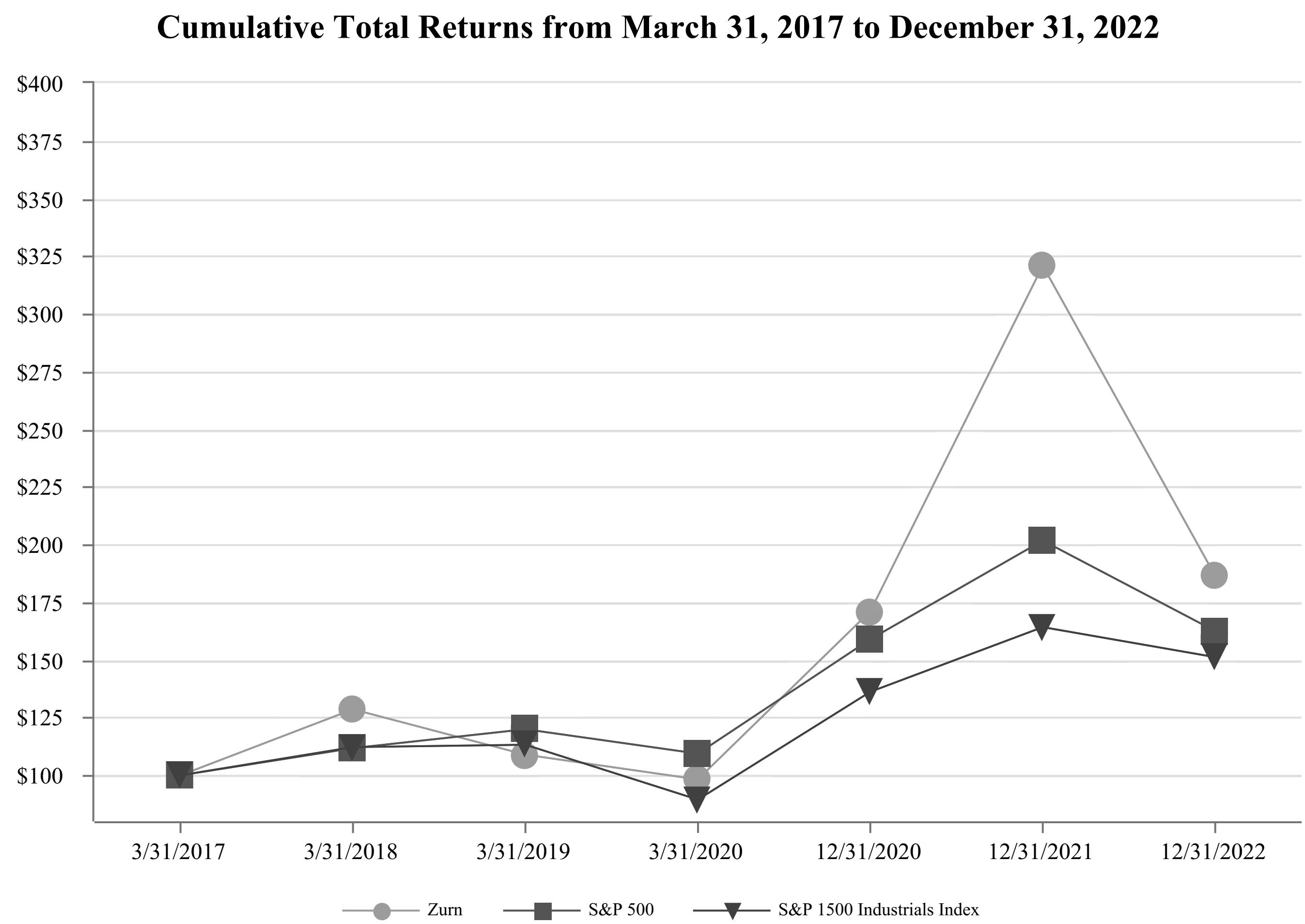
ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value that may yet be Purchased Under the Plans or Programs (1)
Period				
October 1 - October 31, 2022	—	$ —	—	$ 162,792,403
November 1 - November 30, 2022	343,773	$ 23.52	343,773	$ 154,700,973
December 1 - December 31, 2022	727,065	$ 22.76	727,065	$ 138,141,819
Total/Average	1,070,838	$ 23.00	1,070,838	

(1) See explanation of the Repurchase Program above.

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return of our common stock with the Standard & Poor's (the "S&P") 500 Index and the S&P 1500 Industrials Index for the year ended December 31, 2022, the year ended December 31, 2021, the Transition Period ended December 31, 2020, and our preceding four full fiscal years. The graph assumes the value of the investment in our common stock and each index was $100 on March 31, 2017, and that all dividends were reinvested. The shareholder return shown on the graph below is not necessarily indicative of future performance and the indices included do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of Zurn Elkay's stock.



	3/31/2017	3/31/2018	3/31/2019	3/31/2020	12/31/2020	12/31/2021	12/31/2022
Zurn Elkay Water Solutions Corporation (1)	$ 100.00	$ 128.60	$ 108.93	$ 98.22	$ 171.10	$ 320.86	$ 186.43
S&P 500 Index	$ 100.00	$ 111.77	$ 119.96	$ 109.39	$ 158.97	$ 201.72	$ 162.50
S&P 1500 Industrials Index	$ 100.00	$ 112.22	$ 113.24	$ 89.46	$ 136.18	$ 164.21	$ 151.19

(1) Zurn Elkay Water Solutions Corporation historical prices were adjusted to reflect the impact of the Spin-Off Transaction that was completed on October 4, 2021.

ITEM 6.

[Reserved]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of results of operations and financial condition includes periods prior to the acquisitions of the assets of Hadrian Manufacturing Inc., together with the stock of Hadrian Inc. (Hadrian Inc. and Hadrian Manufacturing Inc. are collectively referred to as "Hadrian"), the assets of Advance Technology Solutions, LLC (d/b/a ATS GREASEwatch) ("ATS GREASEwatch"), and the assets of Wade Drains ("Wade"), and the acquisition of Elkay in the Elkay merger. Our financial performance includes the Hadrian business subsequent to December 11, 2020, the ATS GREASEwatch business subsequent to April 16, 2021, the Wade business subsequent to November 17, 2021, and the Elkay business subsequent to July 1, 2022, the respective dates of their acquisitions. Accordingly, the discussion and analysis does not reflect any impact of Hadrian, ATS GREASEwatch, Wade, or Elkay transactions prior to the respective closing dates.

We completed the spin-off of our Process & Motion Control platform ("PMC") on October 4, 2021 in the Spin-Off Transaction, and, accordingly, the results of operations and financial condition associated with PMC have been reclassified to discontinued operations for all periods presented. As a result, the following discussion of results of operations and financial condition is centered on the Zurn business excluding PMC. The consolidated statements of cash flows for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 have not been adjusted to separately disclose cash flows related to the discontinued operations. See Item 8, Note 4, Discontinued Operations for additional information on cash flows associated with the discontinued operations.

You should read the following discussion of our financial condition and results of operations together with Item 8, Financial Statements and Supplementary Data. Following the end of our fiscal year ended March 31, 2020, we transitioned to a December 31 fiscal year-end. The nine-month period from April 1, 2020, to December 31, 2020 is referred to as the Transition Period. Fiscal years prior to and including fiscal year 2020 ended on March 31 of each calendar year.

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" in Item 1A of this report. Actual results may differ materially from those contained in any forward-looking statements. See also "Cautionary Notice Regarding Forward-Looking Statements" found elsewhere in this report.

The information contained in this section is provided as a supplement to the consolidated financial statements and the related notes included elsewhere in this report to help provide an understanding of our financial condition, changes in our financial condition and results of our operations. This section is organized as follows:

Company Overview. This section provides a general description of our business.

Financial Statement Presentation. This section provides a brief description of certain items and accounting policies that appear in our financial statements and general factors that impact these items.

Critical Accounting Estimates. This section discusses the accounting policies and estimates that we consider to be important to our financial condition and results of operations and that require significant judgment and estimates by management in their application.

Recent Accounting Pronouncements. This section cites to the discussion of new or revised accounting pronouncements and standards in Item 8, Note 2, Significant Accounting Policies of our consolidated financial statements.

Overview of Recent Developments. This section provides a description of the recent events impacting our results of operations.

Results of Operations. This section provides an analysis of our results of operations. As noted above, following the end of fiscal 2020, we transitioned to a December 31 fiscal year-end and accordingly we reported the nine-month period from April 1, 2020, to December 31, 2020 as a Transition Period. In providing analysis of the results of our operations, we have provided a comparison of our year ended December 31, 2022 to the year ended December 31, 2021, along with a comparison of the year ended December 31, 2021 to the year ended December 31, 2020.

Non-GAAP Financial Measures. This section provides an explanation of certain financial measures we use that are not in accordance with U.S. generally accepted accounting principles ("GAAP").

Covenant Compliance. This section provides a discussion of certain restrictive covenants in our credit agreement.

Liquidity and Capital Resources. This section provides an analysis of our cash flows and year-to-year comparisons for our years ended December 31, 2022, 2021, and 2020, as well as a discussion of our indebtedness and its potential effects on our liquidity.

Tabular Disclosure of Contractual Obligations. This section provides a discussion of our commitments as of December 31, 2022.

Quantitative and Qualitative Disclosures about Market Risk. This section discusses our exposure to potential losses arising from adverse changes in interest rates and foreign exchange rates.

Company Overview

We are a growth-oriented, pure-play water management business that designs, procures, manufactures, and markets what we believe is the broadest sustainable product portfolio of specification-driven water management solutions to improve health, human safety and the environment. Our product portfolio includes professional grade water safety and control products, flow system products, hygienic and environmental products, and drinking water products for public and private spaces that deliver superior value to building owners, positively impact the environment and human hygiene and reduce product installation time. Zurn Elkay's heritage of innovation and specification has allowed us to provide highly-engineered, mission-critical solutions to customers for decades and affords us the privilege of having long-term, valued relationships with market leaders. We operate in a disciplined way and the Zurn Elkay Business System ("ZEBS") is our operating philosophy. Grounded in the spirit of continuous improvement, ZEBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of our business.

Refer to Item 1, Business for additional information.

Financial Statement Presentation

The following paragraphs provide a brief description of certain items and accounting policies that appear in our financial statements and general factors that impact these items.

Net sales. Net sales represent gross sales less deductions taken for sales returns and allowances and incentive rebate programs.

Cost of sales. Cost of sales includes all costs of manufacturing required to bring a product to a ready for sale condition. Such costs include direct and indirect materials, direct and indirect labor costs, including fringe benefits, supplies, utilities, depreciation, freight and shipping, insurance, pension and postretirement benefits, information technology costs and other manufacturing related costs.

The largest component of our cost of sales is cost of materials, which represented approximately 35% of net sales in the year ended December 31, 2022. We purchase a broad range of materials and components throughout the world in connection with our manufacturing activities. Major raw materials and components include brass, castings, copper, zinc, forgings, plate steel, high-performance engineered plastic and resin. We have a strategic sourcing program that is designed to significantly reduce the number of direct and indirect suppliers we use and to lower the cost of purchased materials.

Selling, general and administrative expenses. Selling, general and administrative expenses primarily includes sales and marketing, finance and administration, engineering and technical services and warehousing. Our major cost elements include salary and wages, fringe benefits, insurance, depreciation, advertising, travel and information technology costs.

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our critical accounting policies have a significant impact on the results we report in our consolidated financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely event that would result in materially different amounts being reported.

We believe the following accounting policies are the most critical to us in that they are important to our financial statements and they require difficult, subjective and/or complex judgments in the preparation of our consolidated financial statements. For additional information, see Item 8, Note 2, Significant Accounting Policies, to our consolidated financial statements.

Revenue recognition. Under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), a performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when obligations under the terms of a contract with the customer are satisfied. For our product sales, revenue is recognized at a point-in-time when control of the product is transferred to the customer, which generally occurs when the product is shipped from our manufacturing facility to the customer. When contracts include multiple products to be delivered to the customer, generally each product is separately priced and is determined to be distinct within the context of the contract. Other than a standard assurance-type warranty that the product will conform to agreed-upon specifications, there are generally no other significant post-shipment obligations. The expected costs associated with standard warranties is recognized as an expense when the products are sold.

When the contract provides the customer the right to return eligible products or when the customer is part of a sales rebate program, we reduce revenue at the point of sale using current facts and historical experience by using an estimate for expected product returns and rebates associated with the transaction. These estimates are adjusted at the earlier of when the most likely amount of consideration that is expected to be received changes or when the consideration becomes fixed. Accordingly, an increase or decrease to revenue is recognized at that time.

Sales and other taxes collected concurrent with revenue-producing activities are excluded from revenue. We have elected to recognize the cost for freight and shipping when control of products has transferred to the customer as a component of cost of sales in the consolidated statements of operations. We classify shipping and handling fees billed to our customers as net sales and the corresponding costs are classified as cost of sales in the consolidated statements of operations.

Receivables. Receivables are stated net of allowances for doubtful accounts of $1.4 million at December 31, 2022 and $1.2 million at December 31, 2021. We assesses the collectability of customer receivables based on the credit worthiness of a customer as determined by credit checks and analysis, as well as the customer's payment history. In determining the allowance for doubtful accounts, we also consider various factors including the aging of customer accounts and historical write-offs. In addition, we monitor other risk factors, including forward-looking information when establishing adequate allowances for doubtful accounts, which reflects the current estimate of credit losses expected to be incurred over the life of the receivables. Generally, advance payment is not required. Allowances for doubtful accounts established are recorded within selling, general and administrative expenses within the consolidated statements of operations.

Inventory. Inventories are stated at the lower of cost or market. Market is determined based on estimated net realizable values. Approximately 89% and 84% of our total inventories as of December 31, 2022 and December 31, 2021, respectively, were valued using the "last-in, first-out" (LIFO) method. All remaining inventories are valued using the "first-in, first-out" (FIFO) method.

In some cases we have determined a certain portion of our inventories are excess or obsolete. In those cases we write down the value of those inventories to their net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. The total write-down of inventories charged to expense was $0.8 million, $0.9 million and $1.5 million, during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

Purchase accounting and business combinations. Assets acquired and the liabilities assumed as part of a business combination are recognized separately from goodwill at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. We review and consider input from outside specialists, if and when appropriate to develop discount rates, and use estimates and assumptions about the future performance of the business to accurately value assets acquired and liabilities assumed at the acquisition date. We may refine these estimates during the measurement period, which may be up to one year from the acquisition date. As a result, during the measurement period, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset recorded to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in our consolidated statements of operations.

Impairment of intangible assets and tangible fixed assets. The carrying value of long-lived assets, including amortizable intangible assets and tangible fixed assets, are evaluated for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment of amortizable intangible assets and tangible fixed assets is generally determined by comparing projected undiscounted cash flows to be generated by the asset, or group of assets, to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted. Determination of the fair value requires various estimates including internal cash flow estimates generated from the asset, quoted market prices and appraisals as appropriate to determine fair value. Actual results could vary from these estimates. During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, no impairment losses were recognized.

Goodwill, trademarks and certain tradenames have indefinite lives and are not amortized. However, the goodwill and intangible assets are tested annually for impairment, and may be tested more frequently if any triggering events occur that would reduce the recoverability of the asset. In conducting the annual impairment test for goodwill, we have the option to first assess qualitative factors to determine whether it is more likely than not (> 50% likelihood) the fair value of any reporting unit is less than its carrying amount. If a qualitative assessment determines an impairment is more likely than not, we are required to perform a quantitative impairment test. Otherwise, no further analysis is required. Alternatively, we may elect to proceed directly to the quantitative impairment test. In conducting a qualitative assessment, we use a discounted cash flow methodology based on future business projections and a market value approach (guideline public company comparables). We perform our goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the fair value of the reporting unit, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value up to the amount of the recorded goodwill.

During the fourth quarter of the year ended December 31, 2022, we completed our annual goodwill impairment test and elected to perform a qualitative assessment. No goodwill impairment charges were recorded during the year ended December 31, 2022, the year ended December 31, 2021, or the nine-month Transition Period ended December 31, 2020.

Retirement benefits. We have significant pension and post-retirement benefit income and expense and assets/liabilities that are developed from actuarial valuations. These valuations include key assumptions regarding discount rates, expected return on plan assets, mortality rates and the current health care cost trend rate. We consider current market conditions in selecting these assumptions. Changes in the related pension and post-retirement benefit income/costs or assets/liabilities may occur in the future due to changes in the assumptions and changes in asset values.

We recognize the net actuarial gains or losses in excess of unrecognized gain or loss exceeding 10 percent of the greater of the market-related value of plan assets or the plan's projected benefit obligation at re-measurement (the "corridor") in our consolidated statements of operations during the fourth quarter of each fiscal year (or upon any re-measurement date). During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, we recognized non-cash actuarial gain (loss) from continuing operations of $1.9 million, $1.2 million, and $(0.3) million, respectively, in connection with re-measurements of our plans. Net periodic benefit costs recorded on a quarterly basis are primarily comprised of service and interest cost, amortization of unrecognized prior service cost and the expected return on plan assets. See Item 8, Note 16, Retirement Benefits for additional information.

The obligation for postretirement benefits other than pension also is actuarially determined and is affected by assumptions including the discount rate and expected future increase in per capita costs of covered postretirement health care benefits. Changes in the discount rate and differences between actual and assumed per capita health care costs may affect the recorded amount of the expense in future periods.

Income taxes. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related deferred tax assets and liabilities.

We assess our income tax positions and record tax liabilities for all years subject to examination based upon management's evaluation of the facts and circumstances and information available at the reporting dates. For those income tax positions where it is more-likely-than-not, based on technical merits, that a tax benefit will be sustained upon the conclusion of an examination, we have recorded the largest amount of tax benefit having a cumulatively greater than 50% likelihood of being realized upon ultimate settlement with the applicable taxing authority, assuming that it has full knowledge of all relevant information. For those tax positions which do not meet the more-likely-than-not threshold regarding the ultimate realization of the related tax benefit, no tax benefit has been recorded in the financial statements. In addition, we provide for interest and penalties, as applicable, and record such amounts as a component of the overall income tax provision. As of December 31, 2022 and 2021, our liability for unrecognized tax benefits was $5.5 million and $5.9 million, respectively.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, net operating losses ("NOL's"), tax credit and other carryforwards. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. As a result of this review, we established a full valuation allowance against U.S. federal and state capital loss carryforwards, as well as certain state tax credit carryforwards, and continue to maintain a partial valuation allowance against certain foreign NOL carryforwards and other related deferred tax assets, as well as certain U.S. state NOL carryforwards. As of December 31, 2022 and 2021, valuation allowances of $32.2 million and $35.1 million, respectively, were recorded against our deferred tax assets. See Item 8 Note 17, Income Taxes for additional information.

Commitments and Contingencies. We are subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. We determine the amount of accruals needed, if any, for each individual issue based on our professional knowledge and experience and discussions with legal counsel. The required accruals may change in the future due to new developments in each matter, the ultimate resolution of each matter or changes in approach, such as change in strategy.

Accruals are recorded on our consolidated balance sheets to reflect our contractual liabilities relating to warranty commitments to our customers. We provide warranty coverage at various lengths and terms to our customers depending on standard offerings and negotiated contractual agreements. We accrue an estimate for warranty expense at the time of sale based on historical warranty return rates and repair costs. Should future warranty experience differ materially from our historical experience, we may be required to record additional warranty accruals which could have a material adverse effect on our results of operations in the period in which these additional accruals are required.

As noted in Item 8, Note 18, Commitments and Contingencies, certain subsidiaries are subject to asbestos litigation. As a result, we have recorded a liability for pending and potential future asbestos claims, as well as a receivable for insurance coverage of such liability. The valuation of our potential asbestos liability was developed from actuarial studies based on the number and severity of future asbestos claims, future settlement costs, and the effectiveness of defense strategies and settlement initiatives. There are inherent uncertainties involved in estimating the number of future asbestos claims, future settlement costs, and the effectiveness of defense strategies and settlement initiatives. As a result, actual liability could differ from the estimate described herein and could be substantial.

Our receivable for insurance coverage was developed by considering our experience in asbestos litigation, the insurance payments made to date by our insurance carriers, existing insurance policies, the industry ratings of the insurers and the advice of insurance coverage counsel with respect to applicable insurance coverage law relating to the terms and conditions of those policies. As of December 31, 2022, the receivable recorded corresponds to the amount of this potential asbestos liability that we believe is probable to be covered by available insurance. However, there is no assurance our current insurance coverage will ultimately be available or that this asbestos liability will not ultimately exceed our coverage limits. Factors that could cause a decrease in the amount of available coverage or create gaps in coverage include: changes in law governing the policies, potential disputes and settlements with the carriers regarding the scope of coverage, and insolvencies of one or more of our carriers.

Recent Accounting Pronouncements

See Item 8, Note 2, Significant Accounting Policies regarding recent accounting pronouncements.

Overview of Recent Developments

Elkay Merger

On July 1, 2022, we completed the Elkay Merger for a preliminary purchase price of $1,462.9 million. Elkay, a market leader of drinking water solutions and commercial sinks, complements our existing product portfolio. The preliminary purchase price includes $1,417.0 million of our common stock based on the closing stock price of $27.48 on July 1, 2022, and $45.9 million of net cash payments for the repayment of Elkay's term loan and Elkay's transaction related costs outstanding that were in excess of Elkay's cash and cash equivalents at the time of closing. Pursuant to the Merger Agreement, we issued 51,564,524 shares of our common stock, which represented approximately 29% of our outstanding common shares immediately following the Merger. The total number of shares of our common stock issued at closing was preliminary and subject to change upon finalization of customary post-closing adjustments with respect to cash, indebtedness and working capital. We expect that approximately 186,000 of these shares will be returned to us in the first half of calendar year 2023 as a result of lower working capital and cash balances at closing compared to targets stipulated in the Merger Agreement. We incurred transaction-related costs of approximately $33.7 million for the year ended December 31, 2022. These costs were associated with legal and professional services and were recognized as selling, general and administrative expenses in our consolidated statements of operations.

See Item 8, Note 3, Acquisitions for more information.

Discontinued Operations

During the year ended December 31, 2021, we completed the spin-off of our PMC platform. The operating results of PMC are reported as discontinued operations in our consolidated statements of operations for all periods presented, as the Spin-Off Transaction represented a strategic shift that had a major impact on our operations and financial results. During the year ended December 31, 2022, we received $35.0 million from Regal Rexnord Corporation as a result of the final working capital and cash balances at closing exceeding the targets stipulated in the Spin-Off Transaction agreement.

The major components of the Income from discontinued operations, net of tax presented in the consolidated statements of operations during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 are included in the table below (in millions):

	Year Ended (1)	Year Ended (2)	Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Net sales	$ —	$ 973.0	$ 870.4
Cost of sales	—	598.6	572.0
Selling, general and administrative expenses	(2.9)	260.2	168.0
Restructuring and other similar charges	—	1.9	12.9
Amortization of intangible assets	—	9.9	10.1
Interest expense, net	—	4.1	3.3
Actuarial loss on pension and postretirement benefit obligations	—	4.8	1.3
Other non-operating income, net	—	(5.6)	(6.4)
Income from discontinued operations before income tax	2.9	99.1	109.2
Income tax (provision) benefit	1.8	(28.0)	(25.8)
Equity method investment income	—	0.3	0.2
Non-controlling interest income	—	(0.2)	(0.4)
Income from discontinued operations, net of tax	$ 4.7	$ 71.2	$ 83.2

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(1) Results of operations for the year ended December 31, 2022 includes the reversal of certain accruals as a result of costs we are obligated to indemnify Regal Rexnord Corporation for being lower than original estimates.

(2) Results of operations during the year ended December 31, 2021 reflect the period from January 1, 2021 through October 4, 2021, the date on which the Spin-Off Transaction of PMC was completed.

During the fiscal year ended March 31, 2019, we completed the sale of our VAG business, which was previously included in our Water Management platform. The sale agreement provided for contingent consideration based on Earn-out EBITDA, as defined in the sale agreement. During the year ended December 31, 2021, we received a $4.2 million cash payment as a result of the VAG business performance in its fiscal year ended March 31, 2021, which represented the final period of the earn-out, which was recorded in income from discontinued operations, net of tax in our condensed consolidated statements of operations.

See Item 8, Note 4, Discontinued Operations for more information.

Restructuring and Other Similar Costs

During the year ended December 31, 2022, we continued to execute various restructuring actions. These initiatives were intended to drive efficiencies and reduce operating costs while also modifying our footprint to reflect changes in the markets we serve, the impact of acquisitions on our overall manufacturing capacity and the refinement of our overall product portfolio. These restructuring actions primarily resulted in workforce reductions, lease termination costs, and other facility rationalization costs. We expect to continue executing similar initiatives to optimize our operating margin and manufacturing footprint. As such, we expect further expenses related to workforce reductions, potential impairment of assets, lease termination costs, and other facility rationalization costs.

We recorded restructuring charges of $15.4 million, $3.7 million and $1.7 million for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively. See Item 8, Note 5, Restructuring and Other Similar Costs for more information.

Results of Operations

Year Ended December 31, 2022 Compared with the Year Ended December 31, 2021

Net sales

(Dollars in Millions)

	Year Ended			
	December 31, 2022	December 31, 2021	Change	% Change
Net sales	$ 1,281.8	$ 910.9	$ 370.9	40.7 %

Net sales were $1,281.8 million for the year ended December 31, 2022, a 40.7% increase year over year. Excluding a 31% increase in sales associated with the Elkay merger and prior year acquisition of Wade and a 1% decrease in sales associated with foreign currency translation, core sales increased 11% year over year as nearly all of our product categories contributed to the sales growth.

Income from operations

(Dollars in Millions)

	Year Ended			
	December 31, 2022	December 31, 2021	Change	% Change
Income from operations	$ 107.1	$ 107.0	$ 0.1	0.1 %
% of net sales	*8.4 %*	*11.7 %*	*(3.3)%*	

Income from operations was $107.1 million for the year ended December 31, 2022, or 8.4% of net sales, compared to income from operations of $107.0 million, or 11.7% of net sales for the year ended December 31, 2021. The year over year change is primarily the result of transaction costs related to the Elkay merger, higher intangible asset and other acquisition related amortization, depreciation, and restructuring costs following our merger with Elkay as well as higher year-over-year costs within transportation and material inputs. These costs were partially offset by the favorable impact of year-over-year sales growth (inclusive of price increases), productivity savings, and lower non-cash stock-based compensation expense.

Interest expense, net

Interest expense, net was $26.9 million for the year ended December 31, 2022 compared to $34.7 million for the year ended December 31, 2021, primarily due to lower outstanding borrowings following the Spin-Off Transaction refinancing, partially offset by higher year over year interest rates. See Item 8, Note 11 Long-Term Debt for more information.

Loss on extinguishment of debt

There was no loss on the extinguishment of debt recognized for the year ended December 31, 2022. During the year ended December 31, 2021, we recognized a $20.4 million loss on the extinguishment of debt in connection with the refinancing of our debt in connection with the Spin-Off Transaction. The loss on extinguishment of debt was comprised of $16.2 million of refinancing related costs, as well as a non-cash write-off of unamortized debt issuance costs associated with the previously outstanding debt of $4.2 million. See Item 8, Note 11 Long-Term Debt for more information.

Actuarial gain on pension and postretirement benefit obligations

Actuarial gain on pension and postretirement benefit obligations for the year ended December 31, 2022, was $1.9 million compared to a gain of $1.2 million for the year ended December 31, 2021. The non-cash actuarial gain recognized for the year ended December 31, 2022, was primarily due to a year over year increase in discount rates assumptions utilized in performing the annual remeasurement of our defined benefit plans, partially offset by unfavorable asset performance. The non-cash actuarial gain recognized for the year ended December 31, 2021, was primarily due to a year over year increase in the discount rate assumptions utilized within the annual remeasurement of our defined benefit plans. See Item 8, Note 16 Retirement Benefits for more information.

Other income (expense), net

Other income, net for the year ended December 31, 2022, was $1.7 million compared to other expense, net of $0.7 million for the year ended December 31, 2021. Other income (expense), net consists primarily of gains and losses from foreign currency transactions, the non-service cost components of net periodic benefit costs associated with our defined benefit plans, and other non-operational gains and losses. The year-over-year change is primarily driven by income recognized in the year ended December 31, 2022 in connection with an insurance settlement, partially offset by a charge recognized for the amount by which our estimated asbestos exposures exceed our estimated insurance coverage available.

Provision for income taxes

The income tax provision for the year ended December 31, 2022 was $26.8 million, or an effective tax rate of 32.0%. The effective income tax rate for the year ended December 31, 2022 was above the U.S. federal statutory rate of 21% primarily due to non-deductible acquisition costs associated with the Merger, the accrual of foreign income taxes, which are generally above the U.S. federal statutory rate, the accrual of additional income taxes associated with compensation deduction limitations under Section 162(m) of the Internal Revenue Code and the accrual of various state income taxes, partially offset by the recognition of income tax benefits associated with share-based payments and the reduction in the valuation allowance associated with certain state NOL carryforwards. The income tax provision for the year ended December 31, 2021 was $2.7 million, or an effective tax rate of 5.2%. The effective income tax rate for the year ended December 31, 2021 was below the U.S. federal statutory rate of 21% primarily due to the recognition of income tax benefits associated with share-based payments, slightly offset by the accrual of foreign income taxes, which are generally above the U.S. federal statutory rate, the accrual of additional income taxes associated with compensation deduction limitations under Section 162(m) of the Internal Revenue Code, the increase in the valuation allowance associated with certain state NOL carryforwards, the accrual of unrecognized income tax benefits in which such realization is not deemed more-likely-than-not and the accrual of various state income taxes.

Net income from continuing operations

Our net income from continuing operations for the year ended December 31, 2022, was $57.0 million, compared to net income from continuing operations of $49.7 million for the year ended December 31, 2021, as a result of the factors described above. Diluted net income per share from continuing operations was $0.37 for the year ended December 31, 2022, as compared to $0.40 per share for the year ended December 31, 2021.

Net income

Net income for the year ended December 31, 2022, was $61.7 million compared to $120.9 million for the year ended December 31, 2021. Diluted net income per share was $0.40 for the year ended December 31, 2022, compared to $0.97 for the year ended December 31, 2021. Income from discontinued operations, net of tax, was $4.7 million for the year ended December 31, 2022 compared to $71.2 million for the year ended December 31, 2021. The year-over-year change in net income from discontinued operations, net of tax, is due to the completion of the PMC Spin-Off Transaction in the year ending December 31, 2021. The year-over-year change in net income is primarily the result of the factors described above.

Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

Net sales

(Dollars in Millions)

	Year Ended			
	December 31, 2021	December 31, 2020	Change	% Change
Net sales	$ 910.9	$ 746.1	$ 164.8	22.1 %

Net sales were $910.9 million for the year ended December 31, 2021, a 22.1% increase year over year. Excluding a 1% increase to net sales associated with foreign currency translation and an 8% increase in net sales resulting from our 2020 acquisition of Hadrian and the 2021 acquisition of Wade, core net sales increased 13% year over year. The increase in core net sales was driven by increased demand across the majority of our product categories.

Income from operations

(Dollars in Millions)

	Year Ended			
	December 31, 2021	December 31, 2020	Change	% Change
Income from operations	$ 107.0	$ 107.7	$ (0.7)	(0.6)%
% of net sales	*11.7 %*	*14.4 %*	*(2.7)%*	

Income from operations was $107.0 million for the year ended December 31, 2021, or 11.7% of net sales, compared to income from operations of $107.7 million, or 14.4% of net sales, for the year ended December 31, 2020. Income from operations as a percentage of net sales decreased 270 basis points year-over-year as the favorable impact of increased sales was more than offset by the change in the adjustment to state inventories at last-in-first-out cost, higher non-cash stock-based compensation expense, the mix impact of the Hadrian acquisition and the benefit of temporary cost reduction actions in the prior year in response to the COVID-19 pandemic.

Interest expense, net

Interest expense, net was $34.7 million during the year ended December 31, 2021 compared to $45.9 million during the year ended December 31, 2020, primarily due to lower outstanding borrowings following the Spin-Off Transaction refinancing. See Item 8, Note 11 Long-Term Debt for more information.

Loss on extinguishment of debt

During the year ended December 31, 2021, we recognized a $20.4 million loss on the extinguishment of debt in connection with the refinancing of our debt in connection with the Spin-Off Transaction. The loss on extinguishment of debt was comprised of $16.2 million of refinancing related costs, as well as a non-cash write-off of unamortized debt issuance costs associated with the previously outstanding debt of $4.2 million. See Item 8, Note 11 Long-Term Debt for more information. There was no loss on the extinguishment of debt recognized during the year ended December 31, 2020.

Actuarial gain (loss) on pension and postretirement benefit obligations

Actuarial gain on pension and postretirement benefit obligations for the year ended December 31, 2021, was $1.2 million compared to a loss of $21.2 million for the year ended December 31, 2020. The non-cash actuarial gain recognized for the year ended December 31, 2021, was primarily due to a year over year increase in discount rates assumptions utilized in performing the annual remeasurement of our defined benefit plans. The non-cash actuarial loss recognized for the year ended December 31, 2020, was primarily due to favorable asset performance and contributions made to the plan partially offset by decreases in the year over year discount rate assumptions utilized within the annual remeasurement of our defined benefit plans. See Item 8, Note 16 Retirement Benefits for more information.

Other expense, net

Other expense, net for the year ended December 31, 2021, was $0.7 million compared to other expense, net of $2.5 million for the year ended December 31, 2020. Other expense, net consists primarily of gains and losses from foreign currency transactions, the non-service cost components of net periodic benefit costs associated with our defined benefit plans and other non-operational gains and losses. The year-over-year change is primarily driven by changes in foreign currency rates and lower interest cost within the non-service cost components of our defined benefit plans.

Provision for income taxes

The income tax provision for the year ended December 31, 2021 was $2.7 million, or an effective tax rate of 5.2%. The effective income tax rate for the year ended December 31, 2021 was below the U.S. federal statutory rate of 21% primarily due to the recognition of income tax benefits associated with share-based payments slightly offset by the accrual of foreign income taxes, which are generally above the U.S. federal statutory rate, the accrual of additional income taxes associated with compensation deduction limitations under Section 162(m) of the Internal Revenue Code, the increase in the valuation allowance associated with certain state NOL carryforwards, the accrual of unrecognized income tax benefits in which such realization is not deemed more-likely-than-not and the accrual of various state income taxes. The income tax provision for the year ended December 31, 2020 was $9.5 million, or an effective tax rate of 24.9%. The effective income tax rate for the year ended December 31, 2020 was above the U.S. federal statutory rate of 21% primarily due to the accrual of foreign income taxes, which are generally above the U.S. federal statutory rate, the accrual of additional income taxes associated with compensation deduction limitations under Section 162(m) of the Internal Revenue Code and the accrual of various state income taxes, partially offset by the recognition of income tax benefits associated with share-based payments.

Net income from continuing operations

Our net income from continuing operations for the year ended December 31, 2021, was $49.7 million, compared to net income from continuing operations of $28.6 million for the year ended December 31, 2020, as a result of the factors described above. Diluted net income per share from continuing operations was $0.40 for the year ended December 31, 2021, as compared to $0.23 per share for the year ended December 31, 2020.

Net income

Net income for the year ended December 31, 2021, was $120.9 million compared to $146.7 million for the year ended December 31, 2020. Diluted net income per share was $0.97 for the year ended December 31, 2021, compared to $1.19 for the year ended December 31, 2020. Income from discontinued operations, net of tax, was $71.2 million for the year ended December 31, 2021 compared to $118.1 million for the year ended December 31, 2020. The year-over-year change in net income from discontinued operations, net of tax, is due to the PMC results for the year ended December 31, 2021 only representing activity through the Spin-Off Transaction date and the recognition of approximately $60.0 million in costs associated with completing the Spin-Off Transaction. The year-over-year change in net income is primarily the result of the factors described above.

Non-GAAP Financial Measures

Non-GAAP financial measures are intended to supplement and not replace financial measures prepared in accordance with GAAP.

Core sales

Core sales excludes the impact of acquisitions (such as the Elkay and Wade Drains acquisitions), divestitures (such as PMC) and foreign currency translation. Management believes that core sales facilitates easier and more meaningful comparisons of our net sales performance with prior and future periods and to our peers. We exclude the effect of acquisitions and divestitures because the nature, size and number of acquisitions and divestitures can vary dramatically from period to period and between us and our peers, and can also obscure underlying business trends and make comparisons of long-term performance difficult. We exclude the effect of foreign currency translation from this measure because the volatility of currency translation is not under management's control.

EBITDA

EBITDA represents earnings before interest and other debt related activities, taxes, depreciation and amortization. EBITDA is presented because it is an important supplemental measure of performance and it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA is also presented and compared by analysts and investors in evaluating our ability to meet debt service obligations. Other companies in our industry may calculate EBITDA differently. EBITDA is not a measurement of financial performance under U.S. GAAP and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of operating performance or any other measures of performance derived in accordance with U.S. GAAP. Because EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a measure of discretionary cash available to invest in the growth of the business.

Adjusted EBITDA

Adjusted EBITDA (as described below in "Covenant Compliance") is an important measure because, under our credit agreement, our ability to incur certain types of acquisition debt and certain types of subordinated debt, make certain types of acquisitions or asset exchanges, operate our business and make dividends or other distributions, all of which will impact our financial performance, is impacted by our Adjusted EBITDA, as our lenders measure our performance with a net first lien leverage ratio by comparing our senior secured bank indebtedness to our Adjusted EBITDA (see "Covenant Compliance" for additional discussion of this ratio, including a reconciliation to our net income). We reported net income in the year ended December 31, 2022, of $61.7 million and Adjusted EBITDA for the same period of $264.6 million. See "Covenant Compliance" for a reconciliation of Adjusted EBITDA to GAAP net income.

Covenant Compliance

Our credit agreement, which governs our senior secured credit facilities, contains, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and the maintenance of certain financial ratios. Payment of borrowings under the credit agreement may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of a representation or warranty, certain non-payments or defaults under other indebtedness, covenant defaults, events of bankruptcy and a change of control. Certain covenants contained in the credit agreement restrict our ability to take certain actions, such as incurring additional debt or making acquisitions, if we are unable to meet a maximum Net First Lien Leverage Ratio of 5.0 to 1.0 as of the end of each fiscal quarter (the ratio was 1.5 to 1.0 at December 31, 2022). Failure to comply with these covenants could limit our long-term growth prospects by hindering our ability to borrow under the revolver, to obtain future debt and/or to make acquisitions.

"Adjusted EBITDA" is the term we use to describe EBITDA as defined and adjusted in our credit agreement, which is net income, adjusted for the items summarized in the table below. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational, non-cash or non-recurring losses or gains. It is also provided to aid investors in understanding our compliance with our debt covenants. Adjusted EBITDA is not a presentation made in accordance with GAAP, and our use of the term Adjusted EBITDA varies from others in our industry. This measure should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP. Adjusted EBITDA has important limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. For example, Adjusted EBITDA does not reflect: (a) our capital expenditures, future requirements for capital expenditures or contractual commitments; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt; (d) tax payments that represent a reduction in cash available to us; (e) any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future; or (f) the impact of earnings or charges resulting from matters that we and the lenders under our credit agreement may not consider indicative of our ongoing operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-cash, non-operating or non-recurring charges that are deducted in calculating net income, even though these are expenses that may recur, vary greatly and are difficult to predict and can represent the effect of long-term strategies as opposed to short-term results.

In addition, certain of these expenses added back in calculating Adjusted EBITDA can represent the reduction of cash that could be used for other corporate purposes. Further, although not included in the calculation of Adjusted EBITDA below, the measure may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions or dispositions to restructuring, and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred.

The calculation of Adjusted EBITDA under our credit agreement as of December 31, 2022, is presented in the table below. However, the results of such calculation could differ in the future based on the different types of adjustments that may be included in such respective calculations at the time.

Set forth below is a reconciliation of net income to Adjusted EBITDA for the year ended December 31, 2022.

(in millions)	Year Ended December 31, 2022
Net income	$ 61.7
Income from discontinued operations, net of tax (1)	(4.7)
Provision for income taxes	26.8
Actuarial gain on pension and postretirement benefit obligations	(1.9)
Other income, net (2)	(1.7)
Interest expense, net	26.9
Depreciation and amortization	54.5
EBITDA	161.6
Adjustments to EBITDA	
Restructuring and other similar charges (3)	15.4
Stock-based compensation expense	25.0
Merger costs (4)	33.7
LIFO expense (5)	9.7
Acquisition-related fair value adjustment	18.9
Other, net (6)	0.3
Subtotal of adjustments to EBITDA	103.0
Adjusted EBITDA	**264.6**
Pro forma adjustment for acquisitions (7)	36.2
Pro forma Adjusted EBITDA	**300.8**
Consolidated indebtedness (8)	$ 438.3
Net First Lien Leverage Ratio (9)	**1.46**

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(1) Income from discontinued operations, net of tax is not included in Adjusted EBITDA in accordance with the terms of our credit agreement.

(2) Other income, net consists primarily of gains and losses from foreign currency transactions, the non-service cost components of net periodic benefit costs associated with our defined benefit plans and other non-operational gains and losses.

(3) Restructuring and other similar charges is comprised of costs associated with workforce reductions, lease termination costs, and other facility rationalization costs. See Item 8, Note 5, Restructuring and Other Similar Charges for more information.

(4) Merger costs is comprised of costs associated with legal and other professional services incurred in connection with completing the merger with Elkay, which are excluded in calculating Adjusted EBITDA as defined in our credit agreement.

(5) Last-in first-out (LIFO) inventory adjustments are excluded in calculating Adjusted EBITDA as defined in our credit agreement.

(6) Other, net consists of gains and losses on the disposition of long-lived assets.

(7) Represents a pro forma adjustment to include Adjusted EBITDA related to the merger with Elkay, which was permitted by our credit agreement. The pro forma adjustment includes the period from January 1, 2022, through the date of the Elkay Merger. See Item 8, Note 3, Acquisitions for more information.

(8) Our credit agreement defines our consolidated indebtedness as the sum of all indebtedness (other than letters of credit or bank guarantees, to the extent undrawn) consisting of indebtedness for borrowed money and capitalized lease obligations, less unrestricted cash, which was $97.6 million (as defined by the credit agreement) at December 31, 2022.

(9) Our credit agreement defines the Net First Lien Leverage Ratio as the ratio of consolidated indebtedness (as described above) to Adjusted EBITDA for the trailing four fiscal quarters.

Liquidity and Capital Resources

Our primary sources of liquidity are available cash and cash equivalents, cash flow from operations, and borrowing availability under our $200.0 million revolving credit facility.

As of December 31, 2022, we had $124.8 million of cash and cash equivalents and $192.5 million of additional borrowing capacity under our revolving credit facility. As of December 31, 2022, the available borrowings under our credit facility were reduced by $7.5 million due to outstanding letters of credit. As of December 31, 2021, we had $96.6 million of cash and cash equivalents and $193.9 million of additional borrowing capacity. As of December 31, 2021, the available borrowings under our credit facility were reduced by $6.1 million, due to outstanding letters of credit.

Our revolving credit facility is available to fund our working capital requirements, capital expenditures and other general corporate purposes. We believe this resource is adequate for expected needs.

Cash Flows

Amounts below include activities attributable to our discontinued operations, unless otherwise noted. In addition, cash flows for the year ended December 31, 2020 include our continuing operations and discontinued operations for the entire period, while the year ended December 31, 2021 only includes the cash flows associated with our PMC platform for the period from January 1, 2021 to October 4, 2021, the date the Spin-Off Transaction was completed. Refer to Item 8, Note 4 Discontinued Operations for further information.

Year Ended December 31, 2022 Compared with the Year Ended December 31, 2021

Net cash provided by operating activities in the year ended December 31, 2022, was $97.0 million compared to $223.6 million in the year ended December 31, 2021 due to lower net income as a result of the Spin-Off Transaction and timing of payments on accounts payable and accrued expenses.

Cash used for investing activities was $6.6 million in the year ended December 31, 2022 compared to $21.9 million in the year ended December 31, 2021. Investing activities in the year ended December 31, 2022, included $7.6 million of capital expenditures and net cash payments of $44.8 million in connection with acquisitions, which were partially offset by the receipt of $35.0 million from Regal Rexnord Corporation in connection with the final net assets transferred in the PMC Spin-Off Transaction, the receipt of $9.5 million in connection with an insurance settlement and $1.3 million from the sale of certain long-lived assets. Investing activities for the year ended December 31, 2021, included $17.1 million of cash used to fund the acquisitions of Wade and ATS GREASEwatch, $23.3 million of capital expenditures, partially offset by the receipt of $18.5 million in connection with the disposition of certain long-lived assets.

Cash used for financing activities was $61.1 million in the year ended December 31, 2022 compared to cash used for financing activities of $356.2 million in the year ended December 31, 2021. Financing activities in the year ended December 31, 2022 included $32.5 million of cash for the payment of dividends on our common stock, $24.7 million of cash for repurchases of our common stock, $5.7 million of net cash payments on outstanding debt, which were partially offset by $1.8 million of net cash proceeds associated with stock option exercises. During the year ended December 31, 2021, we utilized a net $311.5 million of cash related to the Spin-Off Transaction of PMC, $0.9 million of cash for repurchases of our common stock and $36.4 million of cash for the payment of dividends on our common stock. Cash used for financing activities during the year ended December 31, 2021 also included $24.9 million of cash proceeds associated with stock option exercises, more than offset by $32.3 million of cash used for the payment of withholding taxes on employees' share-based payment awards.

Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

Net cash provided by operating activities in the year ended December 31, 2021, was $223.6 million compared to $320.2 million in the year ended December 31, 2020 due to lower net income as a result of the Spin-Off Transaction and investments in working capital.

Cash used for investing activities was $21.9 million in the year ended December 31, 2021 compared to $196.6 million in the year ended December 31, 2020. Investing activities in the year ended December 31, 2021, included $17.1 million of net cash used to fund the acquisitions of Wade and ATS GREASEwatch, whereas the year ended December 31, 2020, included $161.4 million of net cash used in connection with acquisitions of Hadrian, Just Manufacturing and the remaining non-controlling interest in a PMC joint venture. We invested $23.3 million in capital expenditures in the year ended December 31, 2021, compared to $44.2 million in the year ended December 31, 2020. We also received $14.3 million in connection with the disposition of certain long-lived assets in the year ended December 31, 2021, compared to $9.0 million in the year ended December 31, 2020.

Cash used for financing activities was $356.2 million in the year ended December 31, 2021 compared to cash used for financing activities of $156.2 million in the year ended December 31, 2020. During the year ended December 31, 2021, we utilized a net $311.5 million of cash related to the Spin-Off Transaction of PMC, $0.9 million of cash for repurchases of our common stock and $36.4 million of cash for the payment of dividends on our common stock. Cash used for financing activities during the year ended December 31, 2021 also included $24.9 million of cash proceeds associated with stock option exercises, more than offset by $32.3 million of cash used for the payment of withholding taxes on employees' share-based payment awards. During the year ended December 31, 2020, we utilized a net $5.7 million of cash for payments on outstanding debt, $140.0 million of cash for repurchases of our common stock and $38.6 million of cash for the payment of dividends on our common stock. Cash used for financing activities during the year ended December 31, 2020 also included $37.5 million of cash proceeds associated with stock option exercises, partially offset by $9.4 million of cash used for the payment of withholding taxes on employees' share-based payment awards.

Tabular Disclosure of Contractual Obligations

The table below lists our contractual obligations at December 31, 2022 by period when due:

		Payments Due by Period			
(in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Term loans and finance lease obligations (1)	$ 545.1	$ 5.7	$ 11.4	$ 11.0	$ 517.0
Interest on long-term debt obligations (2)	194.9	34.7	68.3	66.9	25.0
Purchase commitments	164.4	161.7	2.7	—	—
Operating lease obligations	53.9	11.3	17.1	10.5	15.0
Pension and post-retirement plans (3)	35.9	1.5	18.4	16.0	See note (3)
Totals	$ 994.2	$ 214.9	$ 117.9	$ 104.4	$ 557.0

(1) Excludes unamortized debt issuance costs of $9.2 million at December 31, 2022.

(2) Interest on long-term debt obligations represents the cash interest expense using LIBOR as of December 31, 2022.

(3) Represents expected pension and post-retirement contributions and benefit payments to be paid directly by the Company. Contributions and benefit payments beyond fiscal 2027 cannot be estimated.

No provision has been made for U.S. federal income taxes related to approximately $19.4 million of undistributed earnings of foreign subsidiaries considered to be permanently reinvested; see Item 8, Note 17 Income Taxes for further information.

We may be required to make significant cash outlays related to our unrecognized tax benefits, including interest and penalties. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits, including interest and penalties and federal tax benefits where applicable, of $5.5 million as of December 31, 2022, have been excluded from the contractual obligations table above. See Item 8, Note 17 Income Taxes for more information related to our unrecognized tax benefits.

Additionally, the deferred compensation liability of $12.1 million as of December 31, 2022, has been excluded from the contractual obligations table above, as we are unable to reasonably estimate the timing of the payments or the amount by which the liability will increase over time. See Item 8, Note 16, Retirement Benefits for more information related to our deferred compensation plan.

Our pension and post-retirement benefit plans are discussed in detail in Item 8, Note 16, Retirement Benefits. The pension plans provide for monthly pension payments to eligible employees upon retirement. Other post-retirement benefits consist of retiree medical plans that cover a portion of employees in the United States that meet certain age and service requirements and other post-retirement benefits for employees at certain foreign locations. See Item 1A, Risk Factors for more information.

Indebtedness

As of December 31, 2022 we had $535.9 million of total indebtedness outstanding as follows (in millions):

	Total Debt at December 31, 2022	**Current Maturities of Long-Term Debt**	**Long-term Portion**
Term loan (1)	$ 535.3	$ 5.5	$ 529.8
Finance leases	0.6	0.2	0.4
Total	$ 535.9	$ 5.7	$ 530.2

(1) Includes unamortized original issue discount and debt issuance costs of $9.2 million at December 31, 2022.

See Item 8, Note 11, Long-Term Debt for a description of our outstanding indebtedness.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet or non-consolidated special-purpose entities.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk during the normal course of business from changes in foreign currency exchange rates and interest rates. The exposure to these risks is managed through a combination of normal operating and financing activities and at times derivative financial instruments in the form of foreign currency forward contracts to cover certain known foreign currency transactional risks. We also have historically entered into interest rate derivatives to manage interest rate fluctuations.

Foreign Currency Exchange Rate Risk

Our exposure to foreign currency exchange rates relates primarily to our operations in Canada. For our operations in Canada, exchange rates impact the U.S. Dollar ("USD") value of our reported earnings, our investments in the subsidiaries and the intercompany transactions with the subsidiaries.

Approximately 11% of our sales originated outside of the United States in the year ended December 31, 2022. Revenues and expenses denominated in foreign currencies are translated into USD at the end of the fiscal period using the average exchange rates in effect during the period. Fluctuations in currency exchange rates also impact the USD amount of our stockholders' equity. The assets and liabilities of our non-U.S. subsidiaries are translated into USD at the exchange rates in effect at the end of the fiscal periods. As of December 31, 2022, stockholders' equity decreased by $4.2 million from December 31, 2021 as a result of foreign currency translation adjustments. If the USD strengthened by 10% as of December 31, 2022, the result would have decreased stockholders' equity by approximately $11.2 million.

As of December 31, 2022, we had not entered into foreign currency forward contracts.

Interest Rate Risk

Our indebtedness under the senior secured credit facilities bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. As of December 31, 2022, our outstanding borrowings under the term loan facility were $535.3 million (net of $9.2 million unamortized debt issuance costs) and bore an effective interest rate of 6.39%, determined as London Interbank Offered Rate ("LIBOR") (subject to a 0.5% floor) plus an applicable margin of 2.00%. During the year ended December 31, 2022, the weighted-average interest rate was 4.00%.

Our net income is affected by changes in market interest rates on our variable-rate obligations. As discussed above, our term loan facilities bear interest at LIBOR (subject to a 0.5% floor) plus an applicable margin. Therefore, a 100 basis point increase in LIBOR above where it closed as of December 31, 2022 would increase the annual interest expense under our term loan facility by approximately $5.5 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information with respect to the Company's market risk is contained under the caption "Quantitative and Qualitative Disclosures About Market Risk" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements included in this Form 10-K include the accounts of Zurn Elkay Water Solutions Corporation and subsidiaries (collectively, the "Company").

Index to Financial Statements

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Financial Statements
As of December 31, 2022 and 2021 and for the years ended December 31, 2022 and December 31, 2021, and the nine-month Transition Period ended December 31, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Zurn Elkay Water Solutions Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zurn Elkay Water Solutions Corporation and Subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2022 and 2021 and the nine months ended December 31, 2020 and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022 and 2021 and the nine months ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 14, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of acquired intangible assets

Description of the Matter

As described in Note 3 to the consolidated financial statements, during the year ended December 31, 2022, the Company completed the merger with Elkay Manufacturing Company for a purchase price of $1,462.9 million. The Company's accounting for this merger included determining the fair value of the intangible assets acquired, which primarily included customer relationships and trade names.

Auditing the Company's accounting for its merger with Elkay was complex due to the significant estimation uncertainty in the Company's determination of the fair value of intangible assets of $865.5 million, which principally consisted of customer relationships and the Elkay trade name. The significant estimation uncertainty was primarily due to the sensitivity of the respective fair values to underlying assumptions about the future performance of the acquired business. The Company used a multi-period excess earnings method, a form of the income approach, to measure the customer relationship assets and the relief from royalty method to value the trade name. The significant assumptions used to estimate the value of the customer relationship included margin, revenue growth, the discount rate, customer attrition rate and certain other assumptions that form the basis of the forecasted cash flows. The significant assumptions used to estimate the value of the Elkay trade name included Elkay revenue growth, and a royalty rate. These significant assumptions are forward looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for mergers. For example, our tests included controls over the estimation process supporting the recognition and measurement of customer relationships, and trade names. We also tested management's review of the valuation models and significant assumptions used in the valuations.

To test the estimated fair value of the customer relationship and trade name intangible assets, we performed audit procedures that included, among others, evaluating the Company's selection of the valuation methodology, evaluating the methods and significant assumptions used by management, and evaluating the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. We involved our valuation specialists to assist with our evaluation of the methodology used by the Company and significant assumptions included in the fair value estimates and we evaluated the reasonableness of management's forecasts of future cash flows by comparing the projections to historical results and certain peer companies.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2002.
Milwaukee, Wisconsin
February 14, 2023

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Zurn Elkay Water Solutions Corporation

Opinion on Internal Control over Financial Reporting

We have audited Zurn Elkay Water Solutions Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Zurn Elkay Water Solutions Corporation and Subsidiaries' (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Elkay Manufacturing Company, which is included in the 2022 consolidated financial statements of the Company and constituted $1,248.7 million and $912.0 million of total and net assets, respectively, as of December 31, 2022 and net sales of $264.4 million and a net loss of $11.5 million, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Elkay Manufacturing Company.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and December 31, 2021, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2022 and 2021, and the nine months ended December 31, 2020 and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) and our report dated February 14, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Milwaukee, Wisconsin
February 14, 2023

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Balance Sheets
(in Millions, except share amounts)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 124.8	$ 96.6
Receivables, net	219.7	144.1
Inventories, net	366.7	184.5
Income taxes receivable	18.3	33.1
Other current assets	28.0	16.5
Total current assets	757.5	474.8
Property, plant and equipment, net	183.8	64.4
Intangible assets, net	1,009.7	179.1
Goodwill	777.0	254.1
Insurance for asbestos claims	72.1	66.0
Other assets	63.9	39.3
Total assets	$ 2,864.0	$ 1,077.7
Liabilities and stockholders' equity		
Current liabilities:		
Current maturities of debt	$ 5.7	$ 5.6
Trade payables	116.9	105.1
Compensation and benefits	19.2	22.0
Current portion of pension and postretirement benefit obligations	1.6	1.3
Other current liabilities	145.9	106.4
Total current liabilities	289.3	240.4
Long-term debt	530.2	533.9
Pension and postretirement benefit obligations	50.5	57.3
Deferred income taxes	221.4	3.1
Operating lease liability	34.2	8.9
Reserve for asbestos claims	79.0	66.0
Other liabilities	44.4	41.7
Total liabilities	1,249.0	951.3
Stockholders' equity:		
Common stock, $0.01 par value; 200,000,000 shares authorized; shares issued and outstanding: 176,876,406 at December 31, 2022 and 125,720,068 at December 31, 2021	1.8	1.3
Additional paid-in capital	2,853.1	1,436.9
Retained deficit	(1,164.9)	(1,236.9)
Accumulated other comprehensive loss	(75.0)	(74.9)
Total stockholders' equity	1,615.0	126.4
Total liabilities and stockholders' equity	$ 2,864.0	$ 1,077.7

See notes to consolidated financial statements.

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Statements of Operations
(in Millions, except share and per share amounts)

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Net sales	$ 1,281.8	$ 910.9	$ 562.7
Cost of sales	816.3	537.7	309.4
Gross profit	465.5	373.2	253.3
Selling, general and administrative expenses	309.0	239.0	153.7
Restructuring and other similar charges	15.4	3.7	1.7
Amortization of intangible assets	34.0	23.5	16.9
Income from operations	107.1	107.0	81.0
Non-operating expense:			
Interest expense, net	(26.9)	(34.7)	(33.3)
Loss on the extinguishment of debt	—	(20.4)	—
Actuarial gain (loss) on pension and postretirement benefit obligations	1.9	1.2	(0.3)
Other income (expense), net	1.7	(0.7)	(1.9)
Income before income taxes	83.8	52.4	45.5
Provision for income taxes	(26.8)	(2.7)	(10.5)
Net income from continuing operations	57.0	49.7	35.0
Income from discontinued operations, net of tax	4.7	71.2	83.2
Net income	$ 61.7	$ 120.9	$ 118.2
Basic net income per share:			
Continuing operations	$ 0.38	$ 0.41	$ 0.29
Discontinued operations	$ 0.03	$ 0.59	$ 0.69
Net income	$ 0.41	$ 1.00	$ 0.98
Diluted net income per share:			
Continuing operations	$ 0.37	$ 0.40	$ 0.28
Discontinued operations	$ 0.03	$ 0.57	$ 0.68
Net income	$ 0.40	$ 0.97	$ 0.96
Weighted-average number of common shares outstanding (in thousands):			
Basic	151,581	121,493	120,428
Effect of dilutive equity awards	2,256	3,621	2,771
Diluted	153,837	125,114	123,199

See notes to consolidated financial statements.

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(in Millions)

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Net income	$ 61.7	$ 120.9	$ 118.2
Other comprehensive income:			
Foreign currency translation adjustments	(4.2)	(4.2)	37.8
Change in pension and postretirement defined benefit plans, net of tax	4.1	18.4	12.8
Other comprehensive (loss) income, net of tax	(0.1)	14.2	50.6
Total comprehensive income	$ 61.6	$ 135.1	$ 168.8

See notes to consolidated financial statements.

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in Millions)

	Common Stock	Additional Paid-In Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling interest (1)	Total Stockholders' Equity
Balance at March 31, 2020	$ 1.2	$ 1,348.3	$ 85.9	$ (124.4)	$ 2.7	$ 1,313.7
Net income	$ —	$ —	$ 118.2	$ —	$ 0.4	$ 118.6
Foreign currency translation and other adjustments	—	—	—	37.8	—	37.8
Change in pension and other postretirement defined benefit plans, net of $3.6 million income tax benefit	—	—	—	12.8	—	12.8
Total comprehensive income	—	—	118.2	50.6	0.4	169.2
Acquisition of non-controlling interest	—	(0.2)	—	—	(0.1)	(0.3)
Stock-based compensation expense	—	35.9	—	—	—	35.9
Proceeds from exercise of stock options	—	18.3	—	—	—	18.3
Taxes withheld and paid on employees' share-based payment awards	—	(9.4)	—	—	—	(9.4)
Repurchase of common stock (2)	—	—	(59.3)	—	—	(59.3)
Common stock dividends ($0.24 per share)	—	—	(28.8)	—	—	(28.8)
Balance at December 31, 2020	$ 1.2	$ 1,392.9	$ 116.0	$ (73.8)	$ 3.0	$ 1,439.3
Net income	$ —	$ —	$ 120.9	$ —	$ —	$ 120.9
Foreign currency translation and other adjustments	—	—	—	(4.2)	—	(4.2)
Change in pension and other postretirement defined benefit plans, net of $5.6 million income tax provision	—	—	—	18.4	—	18.4
Total comprehensive income	—	—	120.9	14.2	—	135.1
Stock-based compensation expense	—	51.4	—	—	—	51.4
Proceeds from exercise of stock options	0.1	24.9	—	—	—	25.0
Taxes withheld and paid on employees' share-based payment awards	—	(32.3)	—	—	—	(32.3)
Repurchase of common stock (2)	—	—	(0.9)	—	—	(0.9)
Dividend received from Spin-Off Transaction	—	—	486.8	—	—	486.8
Distribution of the net assets of the PMC business	—	—	(1,923.3)	(15.3)	(3.0)	(1,941.6)
Common stock dividends ($0.30 per share)	—	—	(36.4)	—	—	(36.4)
Balance at December 31, 2021	$ 1.3	$ 1,436.9	$ (1,236.9)	$ (74.9)	$ —	$ 126.4
Net income	$ —	$ —	$ 61.7	$ —	$ —	$ 61.7
Foreign currency translation and other adjustments	—	—	—	(4.2)	—	(4.2)
Change in pension and other postretirement defined benefit plans, net of $2.2 million income tax expense	—	—	—	4.1	—	4.1
Total comprehensive income (loss)	—	—	61.7	(0.1)	—	61.6
Stock-based compensation expense	—	23.2	—	—	—	23.2
Proceeds from exercise of stock options	—	2.5	—	—	—	2.5
Taxes withheld and paid on employees' share-based payment awards	—	(0.7)	—	—	—	(0.7)
Repurchase of common stock (2)	—	—	(24.7)	—	—	(24.7)
Proceeds associated with divestiture of discontinued operations	—	—	35.0	—	—	35.0
Elkay Merger (3)	0.5	1,416.5	—	—	—	1,417.0
Common stock dividends ($0.20 per share)	—	(25.3)	—	—	—	(25.3)
Balance at December 31, 2022	$ 1.8	$ 2,853.1	$ (1,164.9)	$ (75.0)	$ —	$ 1,615.0

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(1) During the Transition Period, the Company acquired the remaining 30% non-controlling interest in a PMC controlled subsidiary for a cash purchase price of $0.3 million. From the time of this transaction through the Spin-Off Transaction, non-controlling interest represents a 5% non-controlling interest in another PMC joint venture relationship. The Company has no remaining non-controlling interest subsequent to the Spin-Off Transaction.

(2) During the years ended December 31, 2022 and 2021 and the nine-month Transition Period ended December 31, 2020, the Company repurchased and canceled 1.1 million shares, 22,300 shares and 1.7 million shares of common stock at a total cost of $24.7 million, $0.9 million and $59.3 million at a weighted average price of $23.00, $39.27 and $34.97 per share, respectively. See Note 19 Common Stock Repurchases for additional information.

(3) Refer to Note 3, Acquisitions for additional information regarding the Elkay Merger.

See notes to consolidated financial statements.

Zurn Elkay Water Solutions Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(in Millions)

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Operating activities			
Net income	$ 61.7	$ 120.9	$ 118.2
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	20.5	44.1	40.0
Amortization of intangible assets	34.0	33.4	27.0
Loss (gain) on dispositions of long-lived assets	0.3	(10.1)	(1.1)
Deferred income taxes	0.5	(12.1)	(7.0)
Other non-cash expenses (income)	4.8	(3.6)	0.2
Actuarial (gain) loss on pension and postretirement benefit obligations	(1.9)	3.6	1.6
Loss on the extinguishment of debt	—	20.4	—
Stock-based compensation expense	25.0	51.4	36.6
Changes in operating assets and liabilities:			
Receivables	15.5	(66.6)	65.1
Inventories	(17.6)	(79.5)	0.5
Other assets	36.5	(7.7)	2.4
Accounts payable	(18.3)	99.1	(65.1)
Accruals and other	(64.0)	30.3	(22.1)
Cash provided by operating activities	97.0	223.6	196.3
Investing activities			
Expenditures for property, plant and equipment	(7.6)	(23.3)	(28.3)
Acquisitions, net of cash acquired	(44.8)	(17.1)	(102.0)
Proceeds from dispositions of long-lived assets	1.3	14.3	7.8
Proceeds from insurance claims	9.5	—	—
Proceeds associated with divestiture of discontinued operations	35.0	4.2	—
Cash used for investing activities	(6.6)	(21.9)	(122.5)
Financing activities			
Proceeds from borrowings of debt	102.0	550.0	6.0
Repayments of debt	(107.7)	(1,126.7)	(336.4)
Dividend received from Spin-Off Transaction of PMC	—	486.8	—
Cash transferred to PMC related to Spin-Off Transaction	—	(192.8)	—
Payment of debt issuance costs	—	(28.8)	—
Proceeds from exercise of stock options	2.5	24.9	18.3
Taxes withheld and paid on employees' share-based payment awards	(0.7)	(32.3)	(9.4)
Repurchase of common stock	(24.7)	(0.9)	(59.3)
Payment of common stock dividends	(32.5)	(36.4)	(28.8)
Cash used for financing activities	(61.1)	(356.2)	(409.6)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.1)	(4.5)	18.0
Increase (decrease) in cash, cash equivalents and restricted cash	28.2	(159.0)	(317.8)
Cash, cash equivalents and restricted cash at beginning of period (1)	96.6	255.6	573.4
Cash, cash equivalents and restricted cash at end of period (1)	$ 124.8	$ 96.6	$ 255.6

(1) The Company has combined cash flows from discontinued operations with cash flows from continuing operations within operating, investing and financing categories. As such cash and cash equivalents and restricted cash include $193.3 million of cash and cash equivalents from the discontinued operation as of December 31, 2020.

See notes to consolidated financial statements.

Zurn Elkay Water Solutions Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2022

1. Basis of Presentation and Description of Business

The consolidated financial statements included herein have been prepared by Zurn Elkay Water Solutions Corporation ("Zurn Elkay" or the "Company"), in accordance with accounting principles generally accepted in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the consolidated financial statements include all adjustments necessary for a fair presentation of the financial position and the results of operations for the periods presented.

Following the end of the Company's fiscal year ended March 31, 2020, the Company transitioned to a December 31 fiscal year-end date. As a result, this Form 10-K includes financial information for the nine-month period from April 1, 2020 to December 31, 2020 (the "Transition Period"). Prior to the Transition Period, the Company's fiscal year ended on March 31 of each year. See Note 12, Comparative Twelve Month Financial Information for additional information.

Elkay Merger

On February 12, 2022, Zurn Water Solutions Corporation ("Zurn") entered into a definitive agreement to combine with Elkay Manufacturing Company ("Elkay"), pursuant to an Agreement and Plan of Merger (the "Merger Agreement") by and among Zurn, Elkay, Zebra Merger Sub, Inc., a wholly owned subsidiary of Zurn ("Merger Sub"), and Elkay Interior Systems International, Inc., as representative of the stockholders of Elkay, providing for the merger of Elkay with and into Merger Sub, with Elkay surviving as a wholly owned subsidiary of Zurn (the "Merger"). On July 1, 2022, the Merger was completed following which the Company changed its name to "Zurn Elkay Water Solutions Corporation" ("Zurn Elkay", "we", "us", "our", or the "Company"). Shares of the Company's common stock continue to trade on the New York Stock Exchange under the ticker symbol "ZWS". See Note 3, Acquisitions, for additional information.

Spin-Off of Process & Motion Control Segment

On October 4, 2021, the Company completed a Reverse Morris Trust tax-free spin-off transaction (the "Spin-Off Transaction") in which (i) substantially all the assets and liabilities of the Company's PMC business were transferred to a newly created subsidiary, Land Newco, Inc. ("Land"), (ii) the shares of Land were distributed to the Company's stockholders pro rata, and (iii) Land was merged with a subsidiary of Regal Rexnord Corporation (formerly known as Regal Beloit Corporation), in which the stock of Land was converted into a specified number of shares of Regal Rexnord Corporation in accordance with the exchange ratio. Following completion of the Spin-Off Transaction, the Company's name was changed to "Zurn Water Solutions Corporation" and the ticker symbol for its shares of common stock trading on the New York Stock Exchange was changed to "ZWS".

As a result of the Spin-Off Transaction, in accordance with the authoritative guidance, the operating results of PMC are reported as discontinued operations in the consolidated statements of operations for all periods presented. The consolidated statements of cash flows for the year ended December 31, 2022, the year ended December 31, 2021 and the nine-month Transition Period ended December 31, 2020 have not been adjusted to separately disclose cash flows related to the discontinued operations. See Note 4, Discontinued Operations for additional information.

In connection with the Spin-Off Transaction, the Company separated certain defined benefit pension and other post-employment benefit plans, and adjusted its employee share-based compensation awards. See Note 15 Stock-Based Compensation and Note 16 Retirement Benefits, respectively, for additional information.

The Company

Zurn Elkay Water Solutions Corporation is a growth-oriented, pure-play water management business that designs, procures, manufactures, and markets what the Company believes to be the broadest sustainable product portfolio of specification-driven water management solutions to improve health, human safety and the environment. The Company's product portfolio includes professional grade water safety and control products, flow system products, hygienic and environmental products, and drinking water products for public and private spaces that deliver superior value to building owners, positively impact the environment and human hygiene and reduce product installation time. The Companmy's heritage of innovation and specification has allowed it to provide highly-engineered, mission-critical solutions to customers for decades and affords it the privilege of having long-term, valued relationships with market leaders. The Company operates in a disciplined way and the Zurn Elkay Business System ("ZEBS"), described below, is its operating philosophy. Grounded in the spirit of continuous improvement, ZEBS creates a scalable, process-based framework that focuses on driving superior customer satisfaction and financial results by targeting world-class operating performance throughout all aspects of its business.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

See Note 6, Revenue Recognition for the Company's policy for recognizing revenue under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606") as well as the various other disclosures required by ASC 606.

Leases

The Company determines if an arrangement is a lease, or contains a lease, at the inception of the arrangement and determines whether it is an operating or financing lease. Operating and financing leases result in the Company recording a right-of-use ("ROU") asset, current lease liability, and long-term lease liability on its balance sheet. Lease expense for operating leases and amortization expense for finance leases is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet and are instead recognized on a straight-line basis over the lease term. See Note 14, Leases, for additional discussion about the Company's policy for accounting for leases and other required disclosures.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Accounting for Stock Compensation* ("ASC 718"). ASC 718 requires compensation costs related to stock-based payment transactions to be recognized in the financial statements. Generally, compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the requisite service period, generally as the awards vest. See further discussion of the Company's equity plans in Note 15, Stock-Based Compensation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

Receivables

Receivables are stated net of allowances for doubtful accounts of $1.4 million at December 31, 2022, and $1.2 million at December 31, 2021. The Company assesses the collectability of customer receivables based on the credit worthiness of a customer as determined by credit checks and analysis, as well as the customer's payment history. In determining the allowance for doubtful accounts, the Company also considers various factors including the aging of customer accounts and historical write-offs. In addition, the Company monitors other risk factors, including forward-looking information when establishing adequate allowances for doubtful accounts, which reflects the current estimate of credit losses expected to be incurred over the life of the receivables. Generally, advance payment is not required. Allowances for doubtful accounts established are recorded within selling, general and administrative expenses within the consolidated statements of operations.

Significant Customers

The Company's largest customer accounted for 22%, 23% and 24% of consolidated net sales for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively. No other customers account for more than 10% of consolidated net sales for the year ended December 31, 2022, the year ended December 31, 2021, or the nine-month Transition Period ended December 31, 2020.

Inventories

Inventories are comprised of material, direct labor and manufacturing overhead, and are stated at the lower of cost or market. Market is determined based on estimated net realizable values. The Company's total inventories valued using the "last-in, first-out" (LIFO) method was 89% and 84% at December 31, 2022 and 2021, respectively. All remaining inventories are valued using the "first-in, first-out" (FIFO) method.

In some cases, the Company has determined a certain portion of inventories are excess or obsolete. In those cases, the Company writes down the value of those inventories to their net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, adjustments to established inventory reserves may be required. The total write-down of inventories charged to expense was \$0.8 million, \$0.9 million and \$1.5 million, during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

Property, Plant and Equipment

Property, plant and equipment are initially stated at cost. Depreciation is provided using the straight-line method over 10 to 30 years for buildings and improvements, 5 to 10 years for machinery and equipment and 3 to 5 years for computer hardware and software. Where appropriate, the depreciable lives of certain assets may be adjusted to reflect a change in the use of those assets, or depreciation may be accelerated in the case of an eventual asset disposal.

Goodwill and Intangible Assets

Intangible assets consist of acquired trademarks and tradenames, customer relationships (including distribution network) and patents. The customer relationships, patents, and certain tradenames are being amortized using the straight-line method over their estimated useful lives of 7 to 20 years, 3 to 10 years and 5 to 20 years, respectively. Where appropriate, the lives of certain intangible assets may be adjusted to reflect a change in the use of those assets, or amortization may be accelerated in the case of a known intangible asset discontinuation.

Goodwill, trademarks and certain tradenames have indefinite lives and are not amortized. However, the goodwill and intangible assets are tested annually for impairment, and may be tested more frequently if any triggering events occur that would reduce the recoverability of the asset. In conducting the annual impairment test for goodwill, the Company has the option to first assess qualitative factors to determine whether it is more likely than not (> 50% likelihood) the fair value of any reporting unit is less than its carrying amount. If a qualitative assessment determines an impairment is more likely than not, the Company is required to perform a quantitative impairment test. Otherwise, no further analysis is required. Alternatively, the Company may elect to proceed directly to the quantitative impairment test. In conducting a qualitative assessment, the Company utilizes a discounted cash flow methodology based on future business projections and a market value approach (guideline public company comparables). The Company performs the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the fair value of the reporting unit, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value up to the amount of the recorded goodwill.

During the fourth quarter of the year ended December 31, 2022, the Company completed its annual goodwill impairment tests and elected to perform a qualitative assessment. No goodwill impairment charges were recorded during the year ended December 31, 2022, the year ended December 31, 2021, or the nine-month Transition Period ended December 31, 2020.

Impairment of Long-Lived Assets

The carrying value of long-lived assets, including amortizable intangible assets and tangible fixed assets, are evaluated for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment of amortizable intangible assets and tangible fixed assets is generally determined by comparing projected undiscounted cash flows to be generated by the asset, or group of assets, to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted accordingly. The Company recognized no impairment charges of tangible fixed assets during the during the year ended December 31, 2022, the year ended December 31, 2021, or the nine-month Transition Period ended December 31, 2020, respectively. Impairments are determined utilizing Level 3 inputs within the Fair Value hierarchy, and the Company reviews and considers input from outside specialists, when appropriate. Actual results could vary from these estimates. Refer to Note 13, Fair Value Measurements for additional information.

Product Warranty

The Company offers warranties on the sales of certain of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents changes in the Company's product warranty liability during each of the periods presented (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Balance at beginning of period	$ 1.3	$ 1.2	$ 1.4
Acquired obligations	3.5	0.3	—
Charged to operations	1.6	1.1	0.7
Claims settled	(2.2)	(1.3)	(0.9)
Balance at end of period	$ 4.2	$ 1.3	$ 1.2

Income Taxes

Deferred income taxes are provided for future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating losses, tax credits and other applicable carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be actually paid or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of continuing operations in the period that includes the date of enactment.

The Company regularly reviews its deferred tax assets for recoverability and provides a valuation allowance against its deferred tax assets if, based upon consideration of all positive and negative evidence, the Company determines that it is more-likely-than-not that a portion or all of the deferred tax assets will ultimately not be realized in future tax periods. Such positive and negative evidence would include review of historical earnings and losses, anticipated future earnings, the time period over which the temporary differences and carryforwards are anticipated to reverse and implementation of feasible, prudent tax planning strategies.

The Company is subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related deferred tax assets and liabilities. In the ordinary course of the Company's business, there is inherent uncertainty in quantifying the ultimate tax outcome of all the numerous transactions and required calculations relating to the Company's tax positions. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of ASC 740, *Income Taxes* ("ASC 740"). An unrecognized tax benefit represents the difference between the recognition of benefits related to uncertain tax positions for income tax reporting purposes and financial reporting purposes. The Company has established a reserve for interest and penalties, as applicable, for uncertain tax positions and it is recorded as a component of the overall income tax provision.

The Company is subject to periodic income tax examinations by domestic and foreign income tax authorities. Although the outcome of income tax examinations is always uncertain, the Company believes that it has appropriate support for the positions taken on its income tax returns and has adequately provided for potential income tax assessments. Nonetheless, the amounts ultimately settled relating to issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

See Note 17, Income Taxes for additional information.

Per Share Data

Basic net income per share from continuing and discontinued operations is computed by dividing net income from continuing operations and income from discontinued operations, respectively, by the corresponding weighted average number of common shares outstanding for the period. Diluted net income per share from continuing and discontinued operations is computed based on the weighted average number of common shares outstanding, increased by the number of incremental shares that would have been outstanding if the potential dilutive shares were issued through the exercise of outstanding stock options to purchase common shares, except when the effect would be anti-dilutive.

The computation for diluted net income per share for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 excludes 0.4 million, 0.7 million and 0.5 million common shares due to their anti-dilutive effects, respectively.

Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss, net of tax, for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 are as follows (in millions):

	Foreign Currency Translation and Other	Pension and Postretirement Plans	Total
Balance at March 31, 2020	$ (83.8)	$ (40.6)	$ (124.4)
Other comprehensive income before reclassifications	37.8	13.0	50.8
Amounts reclassified from accumulated other comprehensive loss	—	(0.2)	(0.2)
Balance at December 31, 2020	$ (46.0)	$ (27.8)	$ (73.8)
Other comprehensive (loss) income before reclassifications	(4.2)	14.9	10.7
Amounts reclassified from accumulated other comprehensive loss	—	3.5	3.5
PMC Spin-Off Transaction	(20.7)	5.4	(15.3)
Balance at December 31, 2021	$ (70.9)	$ (4.0)	$ (74.9)
Other comprehensive (loss) income before reclassifications	$ (4.2)	$ 4.1	$ (0.1)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Balance at December 31, 2022	$ (75.1)	$ 0.1	$ (75.0)

The following table summarizes the amounts reclassified from accumulated other comprehensive loss to net income during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 (in millions):

Pension and postretirement plans	Year Ended December 31, 2022	Year Ended December 31, 2021	Nine-Month Transition Period Ended December 31, 2020	Income Statement Line Item
Amortization of prior service credit	$ —	$ (0.2)	$ (0.2)	Other income (expense), net
PMC Spin-Off Transaction settlement	—	4.8	—	Discontinued operations, net of tax
Benefit (provision) for income taxes	—	(1.1)	—	
Total, net of income taxes	$ —	$ 3.5	$ (0.2)	

Foreign Currency Translation

Assets and liabilities of subsidiaries operating outside of the United States with a functional currency other than the U.S. dollar are translated into U.S. dollars using exchange rates at the end of the respective period. Revenues and expenses of such entities are translated at average exchange rates in effect during the respective period. Foreign currency translation adjustments are included as a component of accumulated other comprehensive loss. Currency transaction (gains) losses are included in other expense, net in the consolidated statements of operations and totaled $1.0 million, $0.4 million and $(0.4) million for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

Advertising Costs

Advertising costs are charged to selling, general and administrative expenses on the consolidated statements of operations as incurred and amounted to $12.5 million, $8.2 million and $5.5 million for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

Research, Development and Engineering Costs

Research, development and engineering costs are charged to selling, general and administrative expenses on the consolidated statements of operations as incurred and amounted to $18.4 million, $14.0 million and $9.6 million for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

Business Segment and Geographic Areas

The Company is a pure-play water management business that designs, procures, manufactures, and markets specification-driven water management solutions to improve health, human safety and the environment, which comprises one reportable segment. The Company manages and evaluates its operations as one segment primarily due to similarities in the nature of its products, production process, customers and methods of distribution.

Net sales to third parties and long-lived assets by geographic region are as follows (in millions):

	Net Sales			Long-lived Assets		
	Year Ended December 31, 2022	Year Ended December 31, 2021	Nine-Month Transition Period Ended December 31, 2020	December 31, 2022	December 31, 2021	December 31, 2020
United States	$ 1,135.3	$ 792.8	$ 517.3	$ 165.9	$ 51.6	$ 56.3
Canada	131.1	113.3	32.9	12.0	12.7	13.3
Rest of World	15.4	4.8	12.5	5.9	0.1	—
	$ 1,281.8	$ 910.9	$ 562.7	$ 183.8	$ 64.4	$ 69.6

Net sales to third parties are attributed to the geographic regions based on the country in which the shipment originates. Amounts attributed to the geographic regions for long-lived assets are based on the location of the entity that holds such assets. In accordance with ASC 280, *Segment Reporting*, long-lived assets includes movable assets and excludes net intangible assets and goodwill.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and temporary investments and trade accounts receivable.

Recent Accounting Pronouncements

In December 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* ("ASU 2022-06"). In 2020, the Board issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which is described below. The Board included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. At the time that Update 2020-04 was issued, the UK Financial Conduct Authority (FCA) had established its intent that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. As a result, the sunset provision was set for December 31, 2022—12 months after the expected cessation date of all currencies and tenors of LIBOR. In March 2021, the FCA announced that the intended cessation date of the overnight 1-, 3-, 6-, and 12-month tenors of USD LIBOR would be June 30, 2023, which is beyond the current sunset date of Topic 848. Because the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in this Update defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The amendments in this ASU are effective for all entities upon issuance of the update. The Company did not modify any material contracts due to reference rate reform during the year ended December 31, 2022. The Company will continue to evaluate the impact this guidance will have on its consolidated financial statements for all future transactions affected by reference rate reform during the time permitted.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). The amendments in this update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate that is expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The Company did not modify any material contracts due to reference rate reform during the year ended December 31, 2022.

3. Acquisitions

Year Ended December 31, 2022

On July 1, 2022, the Company and Elkay completed the Elkay Merger for a preliminary purchase price of $1,462.9 million. Elkay, a market leader of commercial sinks and drinking water solutions, complements the Company's existing product portfolio. The preliminary purchase price includes $1,417.0 million of Zurn's common stock based on Zurn's closing stock price of $27.48 on July 1, 2022, and $45.9 million of net cash payments for the repayment of Elkay's term loan and Elkay's transaction related costs outstanding that were in excess of Elkay's cash and cash equivalents at the time of closing. Pursuant to the terms of the Merger Agreement, the Company issued 51,564,524 shares of its common stock, which represented approximately 29% of outstanding shares immediately following the Merger. The total number of shares of the Company's common stock issued at closing was preliminary and subject to change upon finalization of customary post-closing adjustments with respect to cash, indebtedness and working capital. The Company expects that approximately 186,000 of these shares will be returned to the Company in the first half of calendar year 2023 as a result of lower working capital and cash balances at closing compared to targets stipulated in the Merger Agreement. The Company incurred transaction-related costs of approximately $33.7 million for the twelve months ended December 31, 2022. These costs were associated with legal and professional services and were recognized as selling, general and administrative expenses in the consolidated statements of operations.

In accordance with the Merger Agreement, the Company increased the size of its Board to eleven members, and appointed two directors designated by Elkay. As of December 31, 2022, the Board consisted of ten members, including one director designated by Elkay. Zurn senior management immediately prior to the consummation of the Elkay Merger remained as the executive officers of the Company immediately after the Elkay Merger. The Company's management determined that the Company is the accounting acquirer in the Elkay Merger based on the facts and circumstances noted within this section and other relevant factors. As such, the Company applied the acquisition method of accounting to the identifiable assets and liabilities of the Elkay business, which have been measured at estimated fair value as of the date of the business combination.

Elkay’s assets and liabilities were measured at estimated fair value at July 1, 2022, primarily using Level 3 inputs. Estimates of fair value represent management’s best estimate of assumptions about future events and uncertainties, including significant judgments related to future cash flows, discount rates, competitive trends, margin and revenue growth assumptions including royalty rates and customer attrition rates and others. Inputs used were generally obtained from historical data supplemented by current and anticipated market conditions and growth rates expected as of the Merger date. See Note 13, Fair Value Measurements, for additional information. Due to the timing of the business combination and the nature of the net assets acquired, at December 31, 2022, the valuation process to determine the fair values is not complete and further adjustments are expected. The Company has estimated the preliminary fair value of net assets acquired based on information currently available and will continue to adjust those estimates as additional information becomes available. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price allocation adjustments will be recorded during the measurement period, but no later than one year from the date of the Merger. The Company will reflect measurement period adjustments in the period in which the adjustments are determined.

The preliminary fair value of the assets acquired and liabilities assumed were as follows (in millions):

	As Reported September 30, 2022	Measurement Period Adjustments	As Reported December 31, 2022
Assets acquired:			
Receivables, net	$ 92.1	$ —	$ 92.1
Inventories	165.9	(0.8)	165.1
Other current assets	9.9	(1.3)	8.6
Property, plant and equipment, net	147.1	(14.0)	133.1
Intangible assets, net	860.5	5.0	865.5
Goodwill	505.0	22.2	527.2
Other assets	73.8	(16.9)	56.9
Total assets acquired	$ 1,854.3	$ (5.8)	$ 1,848.5
Liabilities assumed:			
Trade payables	$ 30.4	$ —	$ 30.4
Compensation and benefits	39.1	0.1	39.2
Current portion of pension and postretirement benefit obligations	17.3	—	17.3
Other current liabilities	30.1	14.8	44.9
Operating lease liability	40.5	(16.3)	24.2
Pension and postretirement benefit obligations	3.6	—	3.6
Deferred income taxes	222.6	(7.1)	215.5
Other liabilities	7.8	2.7	10.5
Total liabilities assumed	391.4	(5.8)	385.6
Total preliminary purchase price	$ 1,462.9	$ —	$ 1,462.9

Unaudited Pro Forma Information

The following unaudited supplemental pro forma financial information presents the financial results from continuing operations for the year ended December 31, 2022 and 2021 as if the Elkay Merger had occurred on January 1, 2021. The pro forma financial information includes, where applicable, adjustments for: (i) additional amortization expense that would have been recognized related to the acquired intangible assets, (ii) additional depreciation expense that would have been recognized related to the acquired property, plant, and equipment, (iii) transaction costs and other one-time non-recurring costs which reduced expenses by $33.7 million for the year ended December 31, 2022 and increased expenses by $33.7 million for the year ended December 31, 2021, (v) additional cost of sales related to the inventory valuation adjustment which reduced expenses by $18.3 million for the year ended December 31, 2022 and increased expenses by $18.3 million for the year ended December 31, 2021, and (vi) the estimated income tax effect on the pro forma adjustments. The pro forma financial information excludes adjustments for estimated cost synergies or other effects of the integration of the Elkay Merger.

The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the Elkay Merger been completed as of the date indicated or the results that may be obtained in the future.

	Year Ended	
	December 31, 2022	December 31, 2021
Net sales	$ 1,580.5	$ 1,477.7
Net income (loss) from continuing operations	$ 91.1	$ (4.2)
Earnings per share from continuing operations		
Basic	$ 0.60	$ (0.03)
Assuming dilution	$ 0.59	$ (0.03)

For the period from July 1, 2022 through December 31, 2022, Elkay had net sales and a net loss of $264.4 million and $11.5 million, respectively, which amounts include the impact of purchase accounting adjustments, and are included in the consolidated statements of operations for the period from July 1, 2022 through December 31, 2022.

Year Ended December 31, 2021

On November 17, 2021, the Company completed the acquisition of the Wade Drains business ("Wade") from McWane, Inc. for a cash purchase price of $12.6 million, excluding transaction costs and net of cash acquired. During the twelve months ended December 31, 2022, the Company received a $1.1 million cash payment from the sellers of Wade in connection with finalizing the acquisition date trade working capital, which is included in the total cash purchase price above. Wade manufactures a wide range of specified commercial plumbing products for customers across North America and complements the Company's existing flow systems product portfolio.

On April 16, 2021, the Company acquired substantially all of the assets of Advance Technology Solutions, LLC (d/b/a ATS GREASEwatch) ("ATS GREASEwatch") for a cash purchase price of $4.5 million, excluding transaction costs and net of cash acquired. The Company paid $3.8 million to the sellers at closing, with the remaining $0.7 million payable to the sellers upon settlement of certain indemnities within two years of closing, ATS GREASEwatch develops, manufactures and markets remote tank monitoring devices, alarms, software and services for various applications and provides technology to enhance and expand our current product offerings.

The acquisitions have been accounted for as business combinations and were recorded by allocating the purchase prices to the fair value of assets acquired and liabilities assumed at the acquisition dates. The excess of the purchase price over the fair value assigned to the assets acquired and liabilities assumed was recorded as goodwill. The purchase price allocations associated with these acquisitions resulted in tax deductible goodwill of $7.5 million, customer relationship intangibles assets of $1.6 million, trade working capital of $9.0 million and $(1.1) million of other net liabilities. During the twelve months ended December 31, 2022, the purchase price allocations for Wade were adjusted, resulting in $1.3 million decrease to goodwill, primarily related to the aforementioned cash payment received from the sellers of Wade.

The Company's results of operations include the acquired operations subsequent to the acquisition dates. Pro-forma results of operations and certain other U.S. GAAP disclosures related to these acquisitions have not been presented because the acquisitions did not significantly impact the Company's consolidated statements of operations or financial position.

Nine-Month Transition Period Ended December 31, 2020

On December 11, 2020, the Company acquired substantially all of the assets of Hadrian Manufacturing Inc. and 100% of the stock of Hadrian Inc. (collectively "Hadrian") for a cash purchase price of $101.3 million, excluding transaction costs and net of cash acquired. During the year ended December 31, 2021, the Company received a $0.4 million cash payment from the sellers in connection with finalizing the acquisition date trade working capital, which is included in the total cash purchase price above. Hadrian, based in Burlington, Ontario, Canada, manufactures washroom partitions and lockers primarily used in institutional and commercial end markets and complements the Company's existing product portfolio.

The acquisition has been accounted for as a business combination and was recorded by allocating the preliminary purchase price to the fair value of assets acquired and liabilities assumed at the acquisition date. The excess of the purchase price over the fair value assigned to the assets acquired and liabilities assumed was recorded as goodwill. The purchase price allocations associated with the acquisition resulted in goodwill of $43.0 million ($36.9 million tax deductible), other intangible assets of $32.4 million (including tradenames of $0.8 million and $31.6 million of customer relationships), $17.1 million of fixed assets, $9.7 million of trade working capital and other net liabilities of $0.9 million. The purchase price allocations for Hadrian were adjusted during the year ended December 31, 2021, resulting in $0.3 million increase in goodwill related to final working capital adjustments and the refinement of the estimated fair value of the liabilities assumed.

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

4. Discontinued Operations

During the year ended December 31, 2021, the Company completed the Spin-Off Transaction of PMC. The operating results of PMC are reported as discontinued operations in the consolidated statements of operations for all periods presented, as the Spin-Off Transaction of PMC represented a strategic shift that had a major impact on operations and financial results. The consolidated statements of cash flows for the year ended December 31, 2022, the year ended December 31, 2021, the nine-month Transition Period ended December 31, 2020 have not been adjusted to separately disclose cash flows related to the discontinued operations. During the year ended December 31, 2022, the Company received $35.0 million from Regal Rexnord Corporation as a result of the final working capital and cash balances at closing exceeding the targets stipulated in the Spin-Off Transaction agreement.

In connection with the Spin-Off Transaction, the Company incurred approximately $60 million in separation costs during the year ended December 31, 2021, which are included within earnings from discontinued operations, net of income taxes in the accompanying consolidated statements of operations. These costs primarily related to professional fees associated with planning the Spin-Off Transaction, as well as Spin-Off Transaction activities within finance, tax, legal and information system functions and certain investment banking fees incurred upon completion of the Spin-Off Transaction.

The major components of the Income from discontinued operations, net of tax presented in the consolidated statements of operations during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 are included in the table below (in millions):

	Year Ended		Nine-Month Transition Period Ended
	(1) December 31, 2022	(2) December 31, 2021	December 31, 2020
Net sales	$ —	$ 973.0	$ 870.4
Cost of sales	—	598.6	572.0
Selling, general and administrative expenses/(income)	(2.9)	260.2	168.0
Restructuring and other similar charges	—	1.9	12.9
Amortization of intangible assets	—	9.9	10.1
Interest expense, net	—	4.1	3.3
Actuarial loss on pension and postretirement benefit obligations	—	4.8	1.3
Other non-operating income, net	—	(5.6)	(6.4)
Income from discontinued operations before income tax	2.9	99.1	109.2
Income tax benefit (provision)	1.8	(28.0)	(25.8)
Equity method investment income	—	0.3	0.2
Non-controlling interest income	—	(0.2)	(0.4)
Income from discontinued operations, net of tax	$ 4.7	$ 71.2	$ 83.2

(1) Results of operations for the year ended December 31, 2022 includes the reversal of certain accruals as a result of costs the Company is obligated to indemnify Regal Rexnord Corporation for being lower than original estimates.

(2) Results of operations during the year ended December 31, 2021 reflect the period from January 1, 2021 through October 4, 2021, the date on which the Spin-Off Transaction of PMC was completed.

The consolidated statements of cash flows for the prior periods presented have not been adjusted to separately disclose cash flows related to discontinued operations. However, the significant investing and financing cash flows and other significant non-cash operating items associated with the discontinued operations were as follows (in millions):

	Year Ended		Nine-Month Transition Period Ended
		(1)	
	December 31, 2022	December 31, 2021	December 31, 2020
Depreciation	$ —	$ 34.9	$ 33.7
Amortization of intangible assets	—	9.9	10.1
Gain on disposition of assets	—	(10.1)	(1.3)
Deferred income taxes	—	0.5	(3.8)
Actuarial loss on pension and postretirement benefit obligations	—	4.8	1.3
Other non-cash (income) expenses	—	(0.3)	1.4
Stock-based compensation	—	13.9	13.7
Expenditures for property, plant and equipment	—	(17.5)	(23.5)
Acquisitions, net of cash acquired	—	—	(0.3)
Proceeds from dispositions of long-lived assets	—	14.3	7.2
Net payments from divestiture of discontinued operations	35.0	4.2	—
Repayments of debt	—	(1.6)	(5.4)
Proceeds from exercise of stock options	—	12.8	9.5
Taxes withheld and paid on employees' shared-based payment awards	—	(0.5)	(0.4)

(1) Results of operations during the year ended December 31, 2021 reflect the period from January 1, 2021 through October 4, 2021, the date on which the Spin-Off Transaction of PMC was completed.

During the year ended March 31, 2019, the Company completed the sale of the VAG business, which was previously included within the Water Management platform. The terms of the sale agreement provided the Company to receive contingent consideration, based on, and subject to, the VAG business attainment of Earn-out EBITDA, as defined in the sale agreement. During the year ended December 31, 2021, the Company received a $4.2 million cash payment as a result of the VAG businesses performance in its fiscal year ending March 31, 2021, which represented the final period of the earn-out, and was recorded within income from discontinued operations, net of tax in its consolidated statements of operations.

5. Restructuring and Other Similar Charges

During the year ended December 31, 2022, the Company continued to execute various restructuring actions. These initiatives were implemented to drive efficiencies and reduce operating costs while also modifying the Company's footprint to reflect changes in the markets it serves, the impact of acquisitions, including Elkay, on the Company's overall manufacturing capacity and the refinement of its overall product portfolio. These restructuring actions primarily resulted in workforce reductions, lease termination costs and other facility rationalization costs. Management expects to continue executing similar initiatives to optimize its operating margin and manufacturing footprint. As such, the Company expects further expenses related to workforce reductions, potential impairment or accelerated depreciation of assets, lease termination costs and other facility rationalization costs. The Company's restructuring plans are preliminary and the full extent of related expenses are not yet estimable.

The following table summarizes the Company's restructuring and other similar costs incurred during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Employee termination benefits	$ 13.6	$ 3.7	$ 1.8
Contract termination and other associated costs	1.8	—	(0.1)
Total restructuring and other similar costs	$ 15.4	$ 3.7	$ 1.7

Restructuring Costs To-date (Period from April 1, 2011 to December 31, 2022)	Restructuring Costs To-date (Period from April 1, 2011 to December 31, 2022)
Employee termination benefits	$ 30.4
Contract termination and other associated costs	9.1
Total restructuring and other similar costs	$ 39.5

The following table summarizes the activity in the Company's accrual for restructuring and other similar costs for the years ended December 31, 2022 and 2021 (in millions):

	Employee termination benefits	Contract termination and other associated costs	Total
Accrued restructuring costs, December 31, 2020 (1)	$ 0.5	$ —	$ 0.5
Charges	3.7	—	3.7
Cash payments	(1.8)	—	(1.8)
Accrued restructuring costs, December 31, 2021 (1)	$ 2.4	$ —	$ 2.4
Elkay opening balance sheet accrual	4.7	—	4.7
Charges	13.6	1.8	15.4
Cash payments	(12.9)	(0.6)	(13.5)
Accrued restructuring costs, December 31, 2022 (1)	$ 7.8	$ 1.2	$ 9.0

(1) As of December 31, 2022, $8.4 million of the restructuring accrual is included in other current liabilities and $0.6 million is included in other liabilities in the consolidated balance sheets. As of December 31, 2021, the restructuring accrual is included in other current liabilities in the consolidated balance sheets.

6. Revenue Recognition

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. A contract’s transaction price is allocated to each distinct performance obligation and revenue is recognized when obligations under the terms of a contract with the customer are satisfied. For the majority of the Company's product sales, revenue is recognized at a point-in-time when control of the product is transferred to the customer, which generally occurs when the product is shipped from the Company's manufacturing facility to the customer. When contracts include multiple products to be delivered to the customer, generally each product is separately priced and is determined to be distinct within the context of the contract. Other than a standard assurance-type warranty that the product will conform to agreed-upon specifications, there are generally no other significant post-shipment obligations. The expected costs associated with standard warranties continues to be recognized as an expense when the products are sold.

When the contract provides the customer the right to return eligible products or when the customer is part of a sales rebate program, the Company reduces revenue at the point of sale using current facts and historical experience by using an estimate for expected product returns and rebates associated with the transaction. The Company adjusts these estimates at the earlier of when the most likely amount of consideration that is expected to be received changes or when the consideration becomes fixed. Accordingly, an increase or decrease to revenue is recognized at that time.

Sales and other taxes collected concurrent with revenue-producing activities are excluded from revenue. The Company has elected to recognize the cost for freight and shipping when control of products has transferred to the customer as a component of cost of sales in the consolidated statements of operations. The Company classifies shipping and handling fees billed to customers as net sales and the corresponding costs are classified as cost of sales in the consolidated statements of operations.

Revenue by Category

The Company designs, procures, manufactures, and markets a comprehensive portfolio of water management solutions. The Company disaggregates its sales by customer type and geographic location, which the Company believes best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows may be impacted differently by certain economic factors. The following tables present revenue disaggregated by customer type and the geographic region of the end customer (in millions):

	Year Ended		Nine-Month Transition Period Ended
Customer Type	**December 31, 2022**	**December 31, 2021**	**December 31, 2020**
Institutional	$ 517.7	$ 334.8	$ 221.6
Commercial	373.7	286.7	170.7
All other	390.4	289.4	170.4
Total	$ 1,281.8	$ 910.9	$ 562.7

	Year Ended		Nine-Month Transition Period Ended
Geography	**December 31, 2022**	**December 31, 2021**	**December 31, 2020**
United States	$ 1,171.8	$ 819.9	$ 512.6
Canada	75.1	67.4	31.0
Rest of world	34.9	23.6	19.1
Total	$ 1,281.8	$ 910.9	$ 562.7

Contract Balances

For substantially all of the Company's product sales, the customer is billed 100% of the contract value when the product ships and payment is generally due 30 days from shipment. Certain contracts include longer payment periods; however, the Company has elected to utilize the practical expedient in which the Company will only recognize a financing component to the sale if payment is due more than one year from the date of shipment.

Billings are recorded as accounts receivable when an unconditional right to the contractual consideration exists. Contract assets arise when the Company performs by transferring goods or services to a customer before the customer pays consideration, or before the customer's payment is due. A contract liability exists when the Company has received consideration or the amount is due from the customer in advance of revenue recognition. Contract liabilities and contract assets as of December 31, 2022 and December 31, 2021 were not material.

Backlog

The Company had backlog of $42.1 million and $69.9 million as of December 31, 2022, and December 31, 2021, respectively, which represents the most likely amount of consideration expected to be received in satisfying the remaining backlog under open contracts. The Company utilizes the optional exemption provided by ASC 606-10-50-14A for variable consideration, and has not included estimated rebates in the amount of unsatisfied performance obligations. The Company expects to recognize approximately 100% of the backlog as revenue in the year ending December 31, 2023.

Timing of Performance Obligations Satisfied at a Point in Time

The Company determined that the customer is able to control the product when it is delivered to them; thus, depending on the shipping terms, control will transfer at different points between the Company's manufacturing facility or warehouse and the customer's location. The Company considers control to have transferred upon shipment or delivery because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset and the customer has significant risks and rewards of ownership of the asset.

Variable Consideration

The Company provides volume-based rebates and the right to return product to certain customers, which are accrued for based on current facts and historical experience. Rebates are paid either on an annual or quarterly basis. There are no other significant variable consideration elements included in the Company's contracts with customers.

Contract Costs

The Company has elected to expense contract costs as incurred if the amortization period is expected to be one year or less. If the amortization period of these costs is expected to be greater than one year, the costs would be subject to capitalization. As of December 31, 2022 and December 31, 2021, the contract assets capitalized are not significant. During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, contract asset amortization was not significant and no impairment losses were recognized.

7. Inventories

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

	December 31, 2022	December 31, 2021
Finished goods	$ 246.6	$ 169.1
Work in progress	28.2	5.1
Raw materials	105.9	14.6
Inventories at First-in, First-Out ("FIFO") cost	380.7	188.8
Adjustment to state inventories at Last-in, First-Out ("LIFO") cost	(14.0)	(4.3)
	$ 366.7	$ 184.5

8. Property, Plant and Equipment

Property, plant and equipment, net is summarized as follows (in millions):

	December 31, 2022	December 31, 2021
Land	$ 14.3	$ 7.4
Buildings and improvements	92.9	47.6
Machinery and equipment	120.4	45.2
Computer hardware and software	26.2	17.9
Construction in-progress	9.7	5.8
	263.5	123.9
Less accumulated depreciation	(79.7)	(59.5)
	$ 183.8	$ 64.4

9. Goodwill and Intangible Assets

The changes in the net carrying value of goodwill for the years ended December 31, 2022 and 2021 consisted of the following (in millions):

Net carrying amount as of December 31, 2020	$ 244.8
Acquisitions (1)	8.8
Purchase accounting adjustments (1)	0.3
Currency translation adjustments	0.2
Net carrying amount as of December 31, 2021	$ 254.1
Elkay Merger(1)	527.2
Purchase accounting adjustments (1)	(1.3)
Currency translation adjustments	(3.0)
Net carrying amount as of December 31, 2022	$ 777.0

(1) Refer to Note 3, Acquisitions for additional information regarding acquisitions.

Total cumulative goodwill impairment charges as of December 31, 2022 and 2021 was $337.1 million.

The gross carrying amount and accumulated amortization for each major class of identifiable intangible assets as of December 31, 2022 and December 31, 2021 consisted of the following (in millions):

		December 31, 2022		
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:				
Patents	9 years	$ 25.5	$ (22.5)	$ 3.0
Customer relationships (including distribution network)	16 years	1,069.5	(298.2)	771.3
Tradenames	19 years	156.8	(8.5)	148.3
Intangible assets not subject to amortization - trademarks and tradenames		87.1	—	87.1
Total intangible assets, net	16 years	$ 1,338.9	$ (329.2)	$ 1,009.7

		December 31, 2021		
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:				
Patents	9 years	$ 24.9	$ (22.4)	$ 2.5
Customer relationships (including distribution network)	15 years	351.1	(269.1)	82.0
Tradenames	13 years	11.5	(4.0)	7.5
Intangible assets not subject to amortization - trademarks and tradenames		87.1	—	87.1
Total intangible assets, net	15 years	$ 474.6	$ (295.5)	$ 179.1

Intangible asset amortization expense totaled $34.0 million, $23.5 million and $16.9 million for the year ended December 31, 2022, the year ended December 31, 2021, the nine-month Transition Period ended December 31, 2020, respectively. Customer relationships and tradenames acquired during the year ended December 31, 2022 were assigned a weighted-average useful life of 16 years and 20 years, respectively. Customer relationships acquired during the year ended December 31, 2021 were assigned a weighted-average useful life of 10 years.

The Company expects to recognize amortization expense on intangible assets subject to amortization of $58.7 million in 2023, $58.7 million in 2024, $58.6 million in 2025, $58.5 million in 2026, and $58.5 million in 2027.

10. Other Current Liabilities

Other current liabilities are summarized as follows (in millions):

	December 31, 2022	December 31, 2021
Commissions	$ 9.0	$ 8.1
Current portion of operating lease liability (1)	9.4	6.1
Income taxes payable	2.3	2.1
Legal and environmental	2.3	3.0
Product warranty (2)	4.2	1.3
Restructuring and other similar charges (3)	8.4	2.4
Risk management (4)	16.3	11.3
Sales rebates	56.0	38.6
Tax indemnities	19.0	21.9
Taxes, other than income taxes	2.5	1.8
Other	16.5	9.8
	$ 145.9	$ 106.4

(1) See more information related to leases within Note 14, Leases.

(2) See more information related to the product warranty obligations balance within Note 2, Significant Accounting Policies.

(3) See more information related to the restructuring obligations balance within Note 5, Restructuring and Other Similar Charges.

(4) Includes projected liabilities related to losses arising from automobile, general and product liability claims.

11. Long-Term Debt

Long-term debt is summarized as follows (in millions):

	December 31, 2022	December 31, 2021
Term loan (1)	$ 535.3	$ 539.2
Finance leases (2)	0.6	0.3
Total	535.9	539.5
Less current maturities	5.7	5.6
Long-term debt	$ 530.2	$ 533.9

(1) Includes unamortized debt issuance costs of $9.2 million and $10.8 million at December 31, 2022 and December 31, 2021, respectively.

(2) See more information related to finance leases within Note 14, Leases.

Senior Secured Credit Facility

On October 4, 2021, ZBS Global, Inc. ("Holdings"), Zurn Holdings, Inc., Zurn LLC (together, the "Original Borrowers"), the lenders from time to time party thereto, and Credit Suisse AG, Cayman Islands Branch, as administrative agent for the lenders (in such capacity, the "Administrative Agent") entered into a Fourth Amended and Restated First Lien Credit Agreement as amended by that certain Amendment No. 1 to Fourth Amended and Restated First Lien Credit Agreement dated as of July 1, 2022 (the "Amendment") (as so amended, the "Credit Agreement"). Pursuant to the Amendment, Elkay joined the Credit Agreement as a borrower (Elkay and the Original Borrowers, collectively, the "Borrowers"). The Credit Agreement is funded by a syndicate of banks and other financial institutions and provides for (i) a $550.0 million term loan facility (the "Term Loan") and (ii) a $200.0 million revolving credit facility (the "Revolving Credit Facility").

The obligations under the Credit Agreement and related documents are secured by liens on substantially all of the assets of Holdings, the Borrowers, and certain subsidiaries of the Borrowers pursuant to a Third Amended and Restated Guarantee and Collateral Agreement, dated as of October 4, 2021, among Holdings, the Borrowers, the subsidiaries of the Borrowers party thereto, and the Administrative Agent, as supplemented pursuant to that certain Supplement No. 1 dated as of July 1, 2022, executed by Elkay and its domestic subsidiaries, and certain other collateral documents.

The Credit Agreement contains representations, warranties, covenants and events of default, including, without limitation, a financial covenant under which the Borrowers are, if certain conditions are met, obligated to maintain on a consolidated basis, as of the end of each fiscal quarter, a certain maximum Net First Lien Leverage Ratio (as defined in the Credit Agreement). As of December 31, 2022, the Borrowers were in compliance with all applicable covenants under the Credit Agreement.

The Credit Agreement amended and restated in its entirety the Company's Third Amended and Restated First Lien Credit Agreement, as amended (the "Prior Credit Agreement"). At December 31, 2020, the Prior Credit Agreement was funded by a syndicate of banks and other financial institutions and provided for (i) a $625.0 million term loan facility (the "Prior Term Loan") and (ii) a $264.0 million revolving credit facility (the "Prior Revolving Credit Facility").

In connection with the 2021 amendment of the Credit Agreement, the Company recognized a $20.4 million loss in the prior year on the extinguishment of debt, comprised of refinancing-related costs incurred and a non-cash write-off of debt issuance costs associated with the previous debt outstanding.

Term Debt

The Credit Agreement provided for the issuance of a term loan facility in an aggregate principal amount of $550.0 million. The proceeds of the Term Loan were, together with the dividend received by the Company in connection with the Spin-Off Transaction and cash on hand, used to (i) repay in full the aggregate principal amount outstanding of the Prior Term Loan, together with accrued interest thereon, (ii) redeem the $500 million of outstanding principal amount of the Notes, as described below, and (iii) pay related fees and expenses.

The Term Loan has a maturity date of October 4, 2028. Commencing on March 31, 2022, the Borrowers are required to make quarterly payments of principal in an amount equal to $1.4 million on each quarter until the maturity date.

The Term Loan bears interest at the Borrowers' option, by reference to a base rate or a rate based on LIBOR, in either case, plus an applicable margin determined quarterly based on the Borrowers' Net First Lien Leverage Ratio as of the last day of each fiscal quarter. If the Net First Lien Leverage Ratio is greater than 1.80 to 1.00, the applicable margin shall equal 1.25% in the case of base rate borrowings and 2.25% in the case of LIBOR borrowings. In the event the Borrowers' Net First Lien Leverage Ratio is less than or equal to 1.80 to 1.00, the applicable margin on both base rate and LIBOR borrowings would decrease by 0.25%. The Borrowers' Net First Lien Leverage Ratio was 1.46 to 1.00 as of December 31, 2022 and therefore the applicable rate is 2.00%.

At December 31, 2022 and December 31, 2021, the borrowings under the Term Loan had weighted-average effective interest rates of 6.39% and 2.75%, respectively. During the year ended December 31, 2022 and December 31, 2021, the borrowings under the Term Loan had weighted-average effective interest rates of 4.00% and 2.07%, respectively.

Revolving Credit Facility

The Credit Agreement includes a $200.0 million revolving credit facility that has a maturity date of October 2, 2026. Borrowings under the Revolving Credit Facility bear interest at the Borrowers' option, by reference to a base rate or a rate based on LIBOR, in either case, plus an applicable margin determined quarterly based on the Borrowers' Net First Lien Leverage Ratio as of the last day of each fiscal quarter. If the Net First Lien Leverage Ratio is greater than 2.00 to 1.00, the applicable margin shall equal 1.00% in the case of base rate borrowings and 2.00% in the case of LIBOR borrowings. In the event the Borrowers' Net First Lien Leverage Ratio is less than or equal to 2.00 to 1.00, the applicable margin on both base rate and LIBOR borrowings would decrease by 0.25%. The Borrowers' Net First Lien Leverage Ratio was 1.46 to 1.00 as of December 31, 2022. The Borrowers are also required to pay a quarterly commitment fee on the average daily unused portion of the Revolving Credit Facility for each fiscal quarter and fees in connection with the issuance of letters of credit. If the Net First Lien Leverage Ratio is greater than 2.00 to 1.00, the commitment fee is 0.50%, and if the Company's Net First Lien Leverage Ratio is less than or equal to 2.00 to 1.00, the commitment fee is 0.375%.

At December 31, 2022 and December 31, 2021, there were no amounts borrowed under the Revolving Credit Facility. As of December 31, 2022 and December 31, 2021, $7.5 million and $6.1 million of the Revolving Credit Facility was considered utilized in connection with outstanding letters of credit, respectively.

4.875% Senior Notes due 2025

On December 7, 2017, the Company issued $500.0 million aggregate principal amount of 4.875% senior notes due December 15, 2025 (the "Notes"). The Notes were issued by ZBS Global, Inc. (f/k/a RBS Global, Inc.) and Zurn LLC (f/k/a Rexnord LLC) (Company subsidiaries; collectively, the "Issuers") pursuant to an Indenture, dated as of December 7, 2017 (the "Indenture"), by and among the Issuers, the domestic subsidiaries of the Company (with certain exceptions) as guarantors named therein (the "Subsidiary Guarantors") and Wells Fargo Bank, National Association (the "Trustee"). The Notes were general senior unsecured obligations of the Issuers. The Company separately entered into a Parent Guarantee with the Trustee whereby it guaranteed certain obligations of the Issuers under the Indenture. The Notes paid interest semi-annually on June 15 and December 15. Debt issuance costs associated with the Notes were being amortized over the life of the Notes as interest expense using the effective interest method.

The Issuers redeemed the Notes on October 4, 2021, at a redemption price equal to 102.438% of the principal amount thereof plus accrued and unpaid interest.

Accounts Receivable Securitization Program

On September 25, 2020, certain subsidiaries of the Company entered into a $100 million accounts receivable securitization facility (the "Securitization") with Mizuho Bank, Ltd. ("Mizuho") to replace the Company's previous $100.0 million accounts receivable securitization facility with Wells Fargo & Company, which was scheduled to expire in December 2020. On May 17, 2021, the Company terminated the Securitization.

Finance Leases

At December 31, 2022 and 2021, the Company had finance lease obligations of $0.6 million and $0.3 million, respectively. For more information related to finance leases, see Note 14, Leases.

Future Debt Maturities

Future maturities of debt and finance lease obligations as of December 31, 2022, excluding the unamortized debt issuance costs of $9.2 million, were as follows (in millions):

Years ending December 31:		
2023	$	5.7
2024		5.7
2025		5.7
2026		5.5
2027		5.5
Thereafter		517.0
	$	545.1

Cash interest paid for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $24.3 million, $34.7 million and $39.8 million, respectively.

12. Comparative Twelve Month Financial Information (Unaudited)

As discussed in Note 1, Basis of Presentation and Description of Business, this Form 10-K includes financial information for the Transition Period. Consolidated Statements of Operations and Cash Flows for the years ended December 31, 2022, 2021 and 2020 are summarized below. All data for the year ended December 31, 2020 is derived from the Company's unaudited consolidated financial statements.

Consolidated Statements of Operations
(in millions)

	Year Ended		
	December 31, 2022	December 31, 2021	December 31, 2020
			(Unaudited)
Net sales	$ 1,281.8	$ 910.9	$ 746.1
Cost of sales	816.3	537.7	407.9
Gross profit	465.5	373.2	338.2
Selling, general and administrative expenses	309.0	239.0	206.1
Restructuring and other similar charges	15.4	3.7	2.0
Amortization of intangible assets	34.0	23.5	22.4
Income from operations	107.1	107.0	107.7
Non-operating expense:			
Interest expense, net	(26.9)	(34.7)	(45.9)
Loss on the extinguishment of debt	—	(20.4)	—
Actuarial gain (loss) on pension and postretirement benefit obligations	1.9	1.2	(21.2)
Other income (expense), net	1.7	(0.7)	(2.5)
Income before income taxes	83.8	52.4	38.1
Provision for income taxes	(26.8)	(2.7)	(9.5)
Net income from continuing operations	57.0	49.7	28.6
Income from discontinued operations, net of tax	4.7	71.2	118.1
Net income	$ 61.7	$ 120.9	$ 146.7
Basic net income per share:			
Continuing operations	$ 0.38	$ 0.41	$ 0.24
Discontinued operations	$ 0.03	$ 0.59	$ 0.98
Net income	$ 0.41	$ 1.00	$ 1.21
Diluted net income per share:			
Continuing operations	$ 0.37	$ 0.40	$ 0.23
Discontinued operations	$ 0.03	$ 0.57	$ 0.96
Net income	$ 0.40	$ 0.97	$ 1.19
Weighted-average number of common shares outstanding (in thousands):			
Basic	151,581	121,493	120,764
Effect of dilutive equity awards	2,256	3,621	2,688
Diluted	153,837	125,114	123,452

Consolidated Statements of Cash Flows
(in millions)

	Year Ended		
	December 31, 2022	December 31, 2021	December 31, 2020
			(Unaudited)
Operating activities			
Net income	$ 61.7	$ 120.9	$ 146.7
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	20.5	44.1	53.2
Amortization of intangible assets	34.0	33.4	36.1
Loss (gain) on dispositions of long-lived assets	0.3	(10.1)	(1.8)
Deferred income taxes	0.5	(12.1)	(14.7)
Other non-cash expenses (income)	4.8	(3.6)	3.5
Actuarial (gain) loss on pension and postretirement benefit obligations	(1.9)	3.6	37.4
Loss on the extinguishment of debt	—	20.4	—
Stock-based compensation expense	25.0	51.4	44.8
Changes in operating assets and liabilities:			
Receivables	15.5	(66.6)	10.8
Inventories	(17.6)	(79.5)	35.0
Other assets	36.5	(7.7)	23.8
Accounts payable	(18.3)	99.1	(56.4)
Accruals and other	(64.0)	30.3	1.8
Cash provided by operating activities	97.0	223.6	320.2
Investing activities			
Expenditures for property, plant and equipment	(7.6)	(23.3)	(44.2)
Acquisitions, net of cash acquired	(44.8)	(17.1)	(161.4)
Proceeds from dispositions of long-lived assets	1.3	14.3	9.0
Proceeds from insurance claims	9.5	—	—
Proceeds associated with divestiture of discontinued operations	35.0	4.2	—
Cash used for investing activities	(6.6)	(21.9)	(196.6)
Financing activities			
Proceeds from borrowings of debt	102.0	550.0	331.0
Repayments of debt	(107.7)	(1,126.7)	(336.7)
Dividend received from Spin-Off Transaction of PMC	—	486.8	—
Cash transferred to PMC related to Spin-Off Transaction	—	(192.8)	—
Payment of debt issuance costs	—	(28.8)	—
Proceeds from exercise of stock options	2.5	24.9	37.5
Taxes withheld and paid on employees' share-based payment awards	(0.7)	(32.3)	(9.4)
Repurchase of common stock	(24.7)	(0.9)	(140.0)
Payment of common stock dividends	(32.5)	(36.4)	(38.6)
Cash used for financing activities	(61.1)	(356.2)	(156.2)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.1)	(4.5)	11.2
Increase (decrease) in cash, cash equivalents and restricted cash	28.2	(159.0)	(21.4)
Cash, cash equivalents and restricted cash at beginning of period (1)	96.6	255.6	277.0
Cash, cash equivalents and restricted cash at end of period (1)	$ 124.8	$ 96.6	$ 255.6

(1) The Company has combined cash flows from discontinued operations with cash flows from continuing operations within operating, investing and financing categories. As such cash and cash equivalents and restricted cash include $193.3 million of cash and cash equivalents from the discontinued operation as of December 31, 2020.

13. Fair Value Measurements

ASC 820, *Fair Value Measuremen*t ("ASC 820"), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed assumptions about the assumptions a market participant would use.

In accordance with ASC 820, fair value measurements are classified under the following hierarchy:

- Level 1- Quoted prices for identical instruments in active markets.
- Level 2- Quoted prices for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable.
- Level 3- Model-derived valuations in which one or more inputs or value-drivers are both significant to the fair value measurement and unobservable.

If applicable, the Company uses quoted market prices in active markets to determine fair value, and therefore classifies such measurements within Level 1. In some cases where market prices are not available, the Company makes use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters. These measurements are classified within Level 3 if they use significant unobservable inputs.

Fair Value of Non-Derivative Financial Instruments

The carrying amounts of cash, receivables, payables and accrued liabilities approximated fair value at December 31, 2022 and December 31, 2021 due to the short-term nature of those instruments. The fair value of long-term debt recorded on the consolidated balance sheets as of December 31, 2022 and December 31, 2021 was approximately $543.1 million and $552.4 million, respectively. The fair value is based on quoted market prices for the same issues.

Acquisition Method of Accounting

The methods used to determine the fair value of significant identifiable assets and liabilities included in the allocation of the preliminary Elkay purchase price are discussed below.

<u>Inventories</u> - Acquired inventory was comprised of finished goods, work in process and raw materials. The fair value of finished goods was calculated as the estimated selling price, adjusted for costs of the selling effort and a reasonable profit allowance relating to the selling effort. The fair value of work in process inventory was primarily calculated as the estimated selling price, adjusted for estimated costs to complete the manufacturing, estimated costs of the selling effort, as well as a reasonable profit margin on the remaining manufacturing and selling effort. The fair value of raw materials and supplies was determined based on replacement cost which approximates historical carrying value.

<u>Property, Plant and Equipment</u> - The preliminary fair value of property, plant, and equipment was determined based on assumptions that market participants would use in pricing an asset.

<u>Leases, including Right-Of-Use ("ROU") Assets and Lease Liabilities</u> - Lease liabilities were measured as of the acquisition date at the present value of future minimum lease payments over the remaining lease term and the incremental borrowing rate of the Company as if the acquired leases were new leases as of the acquisition date. ROU assets recorded are equal to the amount of the lease liability at the acquisition date adjusted for any off-market terms of the lease. The remaining lease term was based on the remaining term at the acquisition date plus any renewal or extension options that the Company is reasonably certain will be exercised.

Identifiable Intangible Assets - The fair value estimates of the identifiable intangible assets are based upon assumptions that market participants would use in pricing an asset. The preliminary fair value and weighted average useful life of the identifiable intangible assets are as follows (in millions):

	Fair Value	Weighted Average Useful Life (in years)
Trade name (1)	$ 145.3	20
Customer relationships (2)	720.2	16
Fair value of intangible assets acquired	$ 865.5	

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(1) The Elkay trade name was valued using the relief from royalty method, which considers both the market approach and the income approach.

(2) The fair value of customer relationships was valued using a multi-period excess earnings method, a form of the income approach, which incorporates the estimated future cash flows to be generated from Elkay's existing customer base.

Deferred Income Tax Assets and Liabilities - The acquisition was structured as a merger and therefore, the Company assumed the historical tax basis of the Elkay business's assets and liabilities. The deferred income tax assets and liabilities include the expected future federal, state, and foreign tax consequences associated with temporary differences between the fair values of the assets acquired and liabilities assumed and the respective tax bases. Tax rates utilized in calculating deferred income taxes generally represent the enacted statutory tax rates at the effective date of the acquisition in the jurisdictions in which legal title of the underlying asset or liability resides.

Other Assets Acquired and Liabilities Assumed (excluding Goodwill) - The Company utilized the carrying values, net of allowances, to value accounts receivable and accounts payable as well as other current assets and liabilities as it was determined that carrying values represented the fair value of those items at the acquisition date.

Goodwill - The excess of the consideration for the acquisition over the fair value of net assets acquired was recorded as goodwill. The goodwill is attributable to expected synergies and expanded market opportunities from combining the Company's operations with those of Elkay. The goodwill created in the acquisition is not expected to be deductible for tax purposes.

14. Leases

The Company determines if a contract is (or contains) a lease at inception by evaluating whether the contract conveys the right to control the use of an identified asset. The Company has operating and finance leases primarily associated with real estate, automobiles and manufacturing and office equipment.

The Company has lease agreements that include lease and non-lease components, which the Company has elected to account for as a single lease component for all classes of the underlying assets. The term of the Company's leases generally reflects the non-cancellable period of the lease. Some of the Company's lease agreements include options to extend or terminate the lease, which are excluded from the minimum lease terms unless the Company is reasonably certain the option will be exercised. Lease expense for operating leases and amortization expense for finance leases is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and are instead recognized on a straight-line basis over the lease term.

Right-of-use ("ROU") assets and liabilities are recognized in the consolidated balance sheets based on the present value of remaining lease payments over the lease term. Additionally, ROU assets include any lease payments made at or before the lease commencement date, any initial direct costs incurred, and are reduced by lease incentives received. As most of the Company's leases do not provide an implicit rate, the present value of lease payments is determined using the Company's incremental borrowing rate at the commencement date of the lease. Lease payments included in the measurement of the lease liabilities are comprised of fixed payments, variable payments that depend on an index or rate, and amounts probable to be paid if an option is reasonably certain to be exercised. Variable lease payments, typically based on usage of the asset or changes in an index or rate, are excluded from the lease liabilities and are recognized in the period in which the obligation for those payments is incurred.

ROU assets and lease liability balances recorded on the consolidated balance sheets are summarized as follows (in millions):

Leases	**Classification**	**December 31, 2022**	**December 31, 2021**
Assets:			
Operating ROU assets	Other assets	$ 42.6	$ 14.1
Finance ROU assets	Property, plant and equipment, net (1)	0.8	0.5
Total ROU assets		$ 43.4	$ 14.6
Liabilities:			
Current			
Operating	Other current liabilities	$ 9.4	$ 6.1
Finance	Current maturities of debt	0.2	0.1
Non-current			
Operating	Operating lease liability	34.2	8.9
Finance	Long-term debt	0.4	0.2
Total lease liabilities		$ 44.2	$ 15.3

(1) Finance lease assets are recorded net of accumulated amortization of $0.3 million and $0.2 million as of December 31, 2022 and December 31, 2021, respectively.

The components of lease expense reported in the consolidated statements of operations are as follows (in millions):

	Year Ended		**Nine-Month Transition Period Ended**
	December 31, 2022	**December 31, 2021**	**December 31, 2020**
Operating lease expenses (1)	$ 9.8	$ 6.1	$ 4.2
Finance lease expenses:			
Depreciation of finance ROU assets (1)	0.2	0.1	—
Interest on lease liabilities (2)	—	—	—
Total finance lease expense	0.2	0.1	—
Variable and short-term lease expense (1)	6.2	3.5	2.4
Total lease expense	$ 16.2	$ 9.7	$ 6.6

(1) Included in cost of sales and selling, general and administrative expenses.

(2) Included in interest expense, net.

Future minimum lease payments under operating and finance leases as of December 31, 2022 are as follows (in millions):

Years ending December 31,	**Operating Leases (1)**	**Finance Leases (1)**
2023	$ 11.3	$ 0.3
2024	9.9	0.2
2025	7.2	0.2
2026	5.7	—
2027	4.8	—
Thereafter	15.0	—
Total future minimum lease payments	53.9	0.7
Less: Imputed interest	(10.3)	(0.1)
Total lease liabilities	$ 43.6	$ 0.6

(1) Excludes legally binding minimum lease payments for leases signed but not yet commenced.

The weighted-average remaining lease terms and discount rates for leases are as follows:

	Year Ended		Nine-Month Transition Period Ended
Lease Term and Discount Rate	**December 31, 2022**	**December 31, 2021**	**December 31, 2020**
Weighted-average remaining lease terms (years):			
Operating leases	6.4	2.8	3.5
Finance leases	3.0	3.3	3.1
Weighted-average discount rate:			
Operating leases	6.1 %	3.3 %	3.5 %
Finance leases	5.2 %	3.4 %	3.5 %

Cash paid for amounts included in the measurement of lease liabilities are as follows (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	**December 31, 2021**	**December 31, 2020**
Operating cash flows from operating leases	$ 9.8	$ 6.4	$ 4.2
Operating cash flows from finance leases	—	—	—
Financing cash flows from finance leases	0.2	0.1	0.1

ROU assets obtained in exchange for lease liabilities are as follows (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	**December 31, 2021**	**December 31, 2020**
Operating leases	$ 38.9	$ 1.9	$ 2.8
Finance leases	0.5	0.1	0.1

15. Stock-Based Compensation

Generally, compensation cost associated with share-based payment transactions is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the requisite service period, generally as the awards vest.

The Zurn Elkay Water Solutions Corporation Performance Incentive Plan, which was last approved by stockholders in fiscal 2022 (the "Plan"), is utilized to provide performance incentives to the Company's officers, employees, directors and certain others by permitting grants of equity awards (for common stock), as well as performance-based cash awards, to such persons, to encourage them to maximize Zurn Elkay's performance and create value for Zurn Elkay's stockholders. To date, equity awards consisting of stock options, Restricted Stock Units ("RSUs") and Performance Stock Units ("PSUs") have been issued under the Plan.

The options granted under the Plan have a maximum term of 10 years after the grant date. Options and RSUs granted since fiscal 2016 generally vest ratably over 3 years. Options and RSUs granted during the Transition Period vested in two equal installments, with the first installment vesting on the first anniversary of the grant date and the second installment vesting on December 31, 2021. During the years ended December 31, 2022 and 2021, RSUs were granted to certain employees that vest ratably over 2 years. RSUs granted to nonemployee directors vest immediately, but shares are not issued until six months after the director's cessation of service. Other than the PSUs granted during the Transition Period, PSUs generally cliff vest after 3 years. PSUs granted during the Transition Period cliff vested based on performance in the period from April 1, 2020, through December 31, 2021. The vesting of the PSUs granted during the Transition Period was accelerated in connection with the Spin-Off Transaction based on performance achieved through, and as of the Spin-Off Transaction date.

The Plan permits the grant of awards that may deliver up to an aggregate of 21,165,489 shares of common stock. The Plan is administered by the Compensation Committee.

In connection with the Spin-Off Transaction, the Company made adjustments to the number of unvested stock options, RSUs and PSUs with the intention of preserving the intrinsic value of the recipient's awards prior to the Spin-Off. Accordingly, the number of stock options, RSUs and PSUs outstanding as of the date of the Spin-Off Transaction was multiplied by a factor of 2.03446, and the related grant date fair value was divided by a factor of 2.03446, which resulted in no increase in the intrinsic value of awards outstanding. Stock options and RSU's continue to vest in accordance with their original vesting period. The vesting of PSU's granted prior to the beginning of 2021 was accelerated and all outstanding awards became fully vested and were released at the time of the Spin-Off Transaction based on performance achieved through, and as of the Spin-Off Transaction date. PSUs granted during 2021 continue to vest in accordance with their original vesting period. These adjustments to the Company's share-based compensation awards were deemed to be a modification of the awards and resulted in approximately $4.9 million of incremental expense, of which $0.2 million and $4.5 million was recognized during the years ended December 31, 2022 and 2021, respectively. The remaining $0.2 million will be recognized over the 24 months following the completion of the Spin-Off Transaction. On the date of the Spin-Off Transaction, the modification affected 124 grantees.

Stock options and RSUs outstanding that were held by employees who transferred to Regal Rexnord Corporation in connection with the Spin-Off Transaction were canceled and replaced by awards issued by Regal Rexnord Corporation. Employees remaining with the Company did not receive share-based compensation awards of Regal Rexnord Corporation as a result of the Spin-Off Transaction. Except for the conversion of awards, the material terms of the awards held by employees who transferred to Regal Rexnord Corporation remained unchanged.

During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, the Company recorded $25.0 million, $37.5 million and $22.9 million of stock-based compensation expense from continuing operations, respectively (the related tax benefit on these amounts subject to the 162(m) compensation limitations was $5.9 million for the year ended December 31, 2022, $9.2 million for the year ended December 31, 2021 and $5.3 million for the nine-month Transition Period ended December 31, 2020). During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, the Company also recorded $0.9 million, $18.6 million and $0.4 million, respectively, of an excess tax benefit related to stock options exercised during each period. As of December 31, 2022, there was $31.2 million of total unrecognized compensation cost related to non-vested stock options, RSUs and PSUs granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.6 years.

Stock Options

The fair value of each option granted under the Plan was estimated on the date of grant using the Black-Scholes valuation model that uses the following weighted-average assumptions:

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Expected option term (in years)	6.5	6.5	6.5
Expected volatility factor	32 %	34 %	35 %
Weighted-average risk-free interest rate	3.11 %	1.02 %	0.48 %
Expected dividend rate	1.0 %	0.5 %	1.3 %

Management's estimate of the option term for options granted under the Plan is based on the midpoint between when the options vest and when they expire. The Company uses the simplified method to determine the expected term, as management does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The Company's expected volatility assumption for all options granted prior to the Spin-Off Transaction is based on the historical volatility of the Company's common stock price. The expected volatility assumption for all options granted after the Spin-Off Transaction is based on the historical volatility of the common stock prices of a peer group. The weighted average risk free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. The weighted-average grant date fair value of options granted under the Plan during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $9.79, $13.54 and $7.69, respectively. The total fair value of options vested during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $0.9 million, $3.6 million and $4.6 million, respectively.

A summary of stock option activity during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 is as follows:

	Year Ended				Nine-Month Transition Period Ended	
	December 31, 2022		December 31, 2021		December 31, 2020	
	Shares	**Weighted Avg. Exercise Price**	**Shares**	**Weighted Avg. Exercise Price**	**Shares**	**Weighted Avg. Exercise Price**
Number of shares under options:						
Outstanding at beginning of period	2,844,062	$ 13.44	3,862,822	$ 22.99	5,513,156	$ 22.28
Granted	103,454	28.68	432,478	39.79	197,565	25.54
Exercised (1)	(221,506)	11.89	(3,260,839)	14.24	(1,780,068)	20.92
Spin-Off Transaction conversion	—	—	2,413,727	10.98	—	—
Canceled/Forfeited	(78,432)	27.65	(604,126)	32.04	(67,831)	26.90
Outstanding at end of period (2)	2,647,578	$ 13.75	2,844,062	$ 13.44	3,862,822	$ 22.99
Exercisable at end of period (3)	2,439,667	$ 12.36	2,566,451	$ 11.75	3,450,079	$ 22.50

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(1) The total intrinsic value of options exercised during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $3.8 million, $90.4 million and $19.9 million, respectively.

(2) The weighted average remaining contractual life of options outstanding was 4.4 years at December 31, 2022, 5.1 years at December 31, 2021 and 5.6 years at December 31, 2020. The aggregate intrinsic value of options outstanding at December 31, 2022 was $22.2 million.

(3) The weighted average remaining contractual life of options exercisable was 3.9 years at December 31, 2022, 4.6 years at December 31, 2021 and 5.3 years at December 31, 2020. The aggregate intrinsic value of options exercisable at December 31, 2022 was $22.2 million.

	Shares	**Weighted Avg. Exercise Price**
Nonvested options at beginning of period	277,611	$ 29.06
Granted	103,454	28.68
Vested	(97,203)	27.27
Canceled/Forfeited	(75,951)	28.02
Nonvested options at end of period	207,911	$ 30.05

Restricted Stock Units

During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 the Company granted RSUs to certain of its officers, directors, and employees. The fair value of each award is determined based on the Company's closing stock price on the date of grant. A summary of RSU activity during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 is as follows:

	Year Ended				Nine-Month Transition Period Ended	
	December 31, 2022		December 31, 2021		December 31, 2020	
	Units	**Weighted Avg. Grant Date Fair Value**	**Units**	**Weighted Avg. Grant Date Fair Value**	**Units**	**Weighted Avg. Grant Date Fair Value**
Nonvested RSUs at beginning of period	501,331	$ 25.98	647,668	$ 26.54	545,275	$ 27.54
Granted	370,244	28.80	483,067	38.56	430,646	25.56
Spin-Off Transaction conversion	—	—	227,058	16.54	—	—
Vested	(166,318)	18.37	(501,902)	22.49	(287,696)	26.90
Canceled/Forfeited	(125,145)	28.92	(354,560)	32.70	(40,557)	27.04
Nonvested RSUs at end of period	580,112	$ 29.33	501,331	$ 25.98	647,668	$ 26.54

Performance Stock Units

During the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, the Company granted PSUs to certain of its officers and employees. The PSUs granted during the nine-month Transition Period ended December 31, 2020, had a 21 month performance period (April 1, 2020, to December 31, 2021) while the PSUs granted during the years ended December 31, 2022 and December 31, 2021 have a three-year performance period, and are earned and vest, subject to continued employment, based on performance relative to metrics determined by the Compensation Committee. The number of performance share awards earned, which can range between 0% and 200% of the target awards granted depending on the Company's actual performance during the respective performance period, will be satisfied with Zurn Elkay common stock. A summary of PSU activity during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 is as follows:

	Year Ended				Nine-Month Transition Period Ended	
	December 31, 2022		December 31, 2021		December 31, 2020	
	Units	Weighted Avg. Grant Date Fair Value	Units	Weighted Avg. Grant Date Fair Value	Units	Weighted Avg. Grant Date Fair Value
Nonvested PSUs at beginning of period	777,374	$ 26.27	1,022,985	$ 26.68	480,186	$ 28.01
Granted	177,724	30.92	1,559,795	30.93	547,374	25.52
Spin-Off conversion Transaction	—	—	1,986,910	14.12	—	—
Vested	—	—	(3,739,235)	14.39	—	—
Canceled/Forfeited	(15,639)	30.70	(53,081)	24.72	(4,575)	26.23
Nonvested PSUs at end of period	939,459	$ 27.07	777,374	$ 26.27	1,022,985	$ 26.68

During the nine-month Transition Period ended December 31, 2020, PSUs were granted with vesting based on goals related to free cash flow conversion. During the year ended December 31, 2022 and the year ended December 31, 2021, PSUs were granted with vesting based on goals related to free cash flow conversion and return on invested capital. The fair value of the portion of PSUs with vesting based on free cash flow conversion and return on invested capital is determined based on the Company's closing stock price on the date of grant.

16. Retirement Benefits

The Company sponsors pension and other postretirement benefit plans for certain employees. Most of the Company’s employees are accumulating retirement income benefits through defined contribution plans. However, the Company sponsors frozen pension plans for certain salaried participants and ongoing pension benefits for certain employees represented by collective bargaining. These plans provide for monthly pension payments to eligible employees upon retirement. Pension benefits for salaried employees generally are based on years of frozen credited service and average earnings. Pension benefits for hourly employees generally are based on specified benefit amounts and years of service. The Company’s policy is to fund its pension obligations in conformity with the funding requirements under applicable laws and governmental regulations. Other postretirement benefits consist of retiree medical plans that cover a portion of employees in the United States that meet certain age and service requirements.

Net periodic benefit costs are primarily comprised of service and interest cost, amortization of unrecognized prior service cost and the expected return on plan assets. The service cost component of net periodic benefit cost is presented within Cost of sales and Selling, general and administrative expenses in the statements of operations while the other components of net periodic benefit cost are presented within Other income (expense), net.

Amounts disclosed within this note include amounts attributable to the Company's discontinued operations, unless otherwise noted. Refer to Note 4 Discontinued Operations for further detail.

The Company recognizes the net actuarial gains or losses in excess of the corridor in operating results during the final quarter of each fiscal year (or upon any required re-measurement event). The corridor is 10% of the greater of the projected benefit obligation or the fair value of the plan assets. In connection with this accounting policy, the Company recognized non-cash actuarial gain (loss) of $1.9 million, $1.2 million, and $(0.3) million within the consolidated statements of operations from continuing operations, during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively. These amounts are recorded within Actuarial gain (loss) on pension and postretirement benefit obligations in the consolidated statements of operations. In addition, the Company recognized non-cash actuarial losses associated with PMC plans of $4.8 million and $1.3 million during the year ended December 31, 2021 and the nine-month Transition Period ended December 31, 2020, respectively, which is recorded in income from discontinued operations, net of tax in the consolidated statements of operations.

On October 4, 2021, the Company completed the Spin-Off Transaction of the PMC business. In accordance with the terms of the Spin-Off Transaction agreements, the net assets associated with the PMC business included in the Spin-Off

Transaction included unfunded pension and postretirement benefit obligations of $80.4 million. The transfer of these obligations affiliated with certain defined benefit plans was accounted for as a settlement in accordance with the authoritative guidance, which required the Company to perform an interim remeasurement of certain plans. In connection with the remeasurement, the Company recognized pre-tax non-cash actuarial losses of $4.8 million, which is recognized within income from discontinued operations, net of tax.

The components of net periodic benefit cost reported in the consolidated statements of operations are as follows (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	**December 31, 2021**	**December 31, 2020**
Pension Benefits:			
Service cost	$ 0.1	$ 0.4	$ 0.4
Interest cost	8.6	13.3	13.9
Expected return on plan assets	(9.6)	(17.3)	(13.9)
Benefit cost associated with special events:			
PMC Spin-Off	—	5.7	—
Recognition of actuarial losses	—	—	1.6
Net periodic benefit (income) expense	$ (0.9)	$ 2.1	$ 2.0
Other Postretirement Benefits:			
Interest cost	$ 0.4	$ 0.3	$ 0.4
Amortization of prior service credit	—	(0.2)	(0.2)
Benefit cost associated with special events:			
PMC Spin-Off	—	(0.9)	—
Recognition of actuarial gains	(1.9)	(1.2)	—
Net periodic benefit (income) expense	$ (1.5)	$ (2.0)	$ 0.2

During the year ended December 31, 2022, the recognition of $1.9 million of net non-cash actuarial gains was primarily due to an increase in the discount rates utilized within remeasurement of the Company's defined benefit plans partially offset by unfavorable asset returns. During the year ended December 31, 2021, the recognition of $3.6 million of net non-cash actuarial losses was primarily due to an increase in the discount rates utilized within remeasurement of the Company's defined benefit plans. During the nine-month Transition Period ended December 31, 2020, the recognition of $1.6 million of non-cash actuarial loss was due to favorable asset performance and contributions made to the plan partially offset by decreases in the discount rate utilized within the annual remeasurement of the Company's defined benefit plans.

The Company made contributions to its U.S. qualified pension plan trusts of $0.3 million, $2.0 million, and $6.0 million during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020, respectively.

The status of the plans is summarized as follows (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2022	Year Ended December 31, 2021
Benefit obligation at beginning of period	$ (297.9)	$ (662.1)	$ (10.6)	$ (15.4)
Elkay Merger (1)	(0.9)	—	(20.4)	—
Service cost	(0.1)	(0.4)	—	—
Interest cost	(8.6)	(13.3)	(0.4)	(0.3)
Actuarial gains	61.3	25.7	1.2	1.3
Benefits paid	19.9	33.3	18.7	1.4
Plan participant contributions	—	—	(0.2)	(0.3)
Spin-Off Transaction	—	318.8	—	2.7
Settlements	—	0.1	—	—
Benefit obligation at end of period	$ (226.3)	$ (297.9)	$ (11.7)	$ (10.6)
Plan assets at the beginning of the period	$ 249.9	$ 503.5	$ —	$ —
Elkay Merger (1)	0.5	—	—	—
Actual return on plan assets	(44.8)	15.4	—	—
Contributions	0.5	2.0	1.4	1.4
Benefits paid	(19.9)	(32.6)	(1.4)	(1.4)
Spin-Off Transaction	—	(238.4)	—	—
Plan assets at end of period	$ 186.2	$ 249.9	$ —	$ —
Funded status of plans	$ (40.1)	$ (48.0)	$ (11.7)	$ (10.6)
Net amount on Consolidated Balance Sheets consists of:				
Non-current assets	$ 0.3	$ —	$ —	$ —
Current liabilities	$ (0.3)	$ (0.3)	$ (1.3)	$ (1.0)
Long-term liabilities	(40.1)	(47.7)	(10.4)	(9.6)
Total net funded status	$ (40.1)	$ (48.0)	$ (11.7)	$ (10.6)

(1) In accordance with the terms of the Elkay Merger, the Company paid $17.3 million following the completion of the Elkay Merger to liquidate all remaining obligations associated with one of Elkay's defined benefit plans assumed in the Elkay Merger.

As of December 31, 2022, the Company had pension plans with a combined projected benefit obligation of $226.3 million compared to plan assets of $186.2 million, resulting in an under-funded status of $40.1 million compared to an under-funded status of $48.0 million at December 31, 2021. The Company’s funded status improved during the year ended December 31, 2022 primarily due to increases in the discount rate assumption, partially offset by the obligations assumed in connection with the Elkay Merger. Any further changes in the assumptions underlying the Company’s pension values, including those that arise as a result of declines in equity markets and changes in interest rates, could result in increased pension obligation and pension cost which could negatively affect the Company’s consolidated financial position and results of operations in future periods.

Amounts included in accumulated other comprehensive loss, net of tax, related to defined benefit plans at December 31, 2022 and December 31, 2021 consist of the following (in millions):

	As of December 31, 2022		
	Pension Benefits	Postretirement Benefits	Total
Unrecognized prior service credit	$ —	$ —	$ —
Unrecognized actuarial loss (gain)	0.4	(0.5)	(0.1)
Accumulated other comprehensive loss (income), gross	0.4	(0.5)	(0.1)
Deferred income tax (benefit) provision	(0.1)	0.1	—
Accumulated other comprehensive loss (income), net	$ 0.3	$ (0.4)	$ (0.1)

	As of December 31, 2021		
	Pension Benefits	Postretirement Benefits	Total
Unrecognized prior service credit	$ —	$ —	$ —
Unrecognized actuarial loss (gain)	7.3	(1.1)	6.2
Accumulated other comprehensive loss (income), gross	7.3	(1.1)	6.2
Deferred income tax (benefit) provision	(2.4)	0.2	(2.2)
Accumulated other comprehensive loss (income), net	$ 4.9	$ (0.9)	$ 4.0

The following table presents significant assumptions used to determine benefit obligations and net periodic benefit cost (income) in weighted-average percentages:

	Pension Benefits			Other Postretirement Benefits		
	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2022	December 31, 2021	December 31, 2020
Benefit Obligations:						
Discount rate	5.6 %	3.0 %	2.3 %	5.6 %	2.9 %	2.4 %
Rate of compensation increase	3.0 %	3.0 %	3.0 %	n/a	n/a	n/a
Net Periodic Benefit Cost:						
Discount rate	3.0 %	2.7 %	3.1 %	3.4 %	2.4 %	3.3 %
Rate of compensation increase	3.0 %	3.0 %	3.0 %	n/a	n/a	n/a
Expected return on plan assets	4.0 %	4.3 %	4.3 %	n/a	n/a	n/a

In evaluating the expected return on plan assets, consideration was given to historical long-term rates of return on plan assets and input from the Company’s pension fund consultant on asset class return expectations, long-term inflation and current market conditions. The following table presents the Company’s target investment allocations for the year ended December 31, 2022 and actual investment allocations at December 31, 2022 and December 31, 2021.

	Plan Assets			
	December 31, 2022			December 31, 2021
	Investment Policy (1)	Target Allocation (2)	Actual Allocation	Actual Allocation
Equity securities	20% - 40%	40%	40%	29%
Debt securities (including cash and cash equivalents)	55% - 80%	60%	60%	70%
Other	0% - 10%	—%	—%	1%

(1) The investment policy allocation represents the guidelines of the Company's pension plans based on the changes in the plans funded status.

(2) The target allocations represent the weighted average target allocations for the Company's pension plans.

The Company's defined benefit pension utilizes a dynamic liability driven investment ("LDI") strategy. The objective is to more closely align the pension plan assets with its liabilities in terms of how both respond to interest rate changes. The plan assets are allocated into two investment categories: (i) LDI, comprised of high quality, investment grade fixed income securities and (ii) return seeking, comprised of traditional securities and alternative asset classes. All assets are managed externally according to guidelines established individually with investment managers and the Company's investment consultant. The Company periodically undertakes asset and liability modeling studies to determine the appropriateness of the investments. The Company intends to continuously reduce the assets allocated to the return seeking category, thereby increasing the assets allocated to the LDI category based on the overall improvement in the plan funded status. No equity securities of the Company are held in the portfolio.

The fair values of the Company's pension plan assets for both the U.S and non-U.S. plans at December 31, 2022 and December 31, 2021, by asset category are included in the table below (in millions). For additional information on the fair value hierarchy and the inputs used to measure fair value, see Note 13, Fair Value Measurements.

	December 31, 2022				
	Quoted Prices in Active Market (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Assets measured at net asset value (1)**	**Total**
Cash and cash equivalents	$ 3.3	$ —	$ —	$ —	$ 3.3
Investment funds					
Fixed income funds (2)	—	—	—	107.0	107.0
U.S. equity funds (3)	9.1	—	—	42.4	51.5
International equity funds (3)	—	—	—	22.2	22.2
Balanced funds (3)	—	—	—	2.2	2.2
Total	$ 12.4	$ —	$ —	$ 173.8	$ 186.2

	December 31, 2021				
	Quoted Prices in Active Market (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Assets measured at net asset value (1)**	**Total**
Cash and cash equivalents	$ 5.4	$ —	$ —	$ —	$ 5.4
Investment funds					
Fixed income funds (2)	—	—	—	169.4	169.4
U.S. equity funds (3)	20.9	—	—	31.5	52.4
International equity funds (3)	—	—	—	19.1	19.1
Balanced funds (3)	—	—	—	2.5	2.5
Alternative investment funds (4)	—	—	—	1.1	1.1
Total	$ 26.3	$ —	$ —	$ 223.6	$ 249.9

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(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(2) The Company's fixed income mutual and commingled funds primarily include investments in U.S. government securities and corporate bonds. The commingled funds also include an insignificant portion of investments in asset-backed securities or partnerships. The mutual and commingled funds are primarily valued using the net asset value, which reflects the plan's share of the fair value of the investments.

(3) The Company's equity mutual and commingled funds primarily include investments in U.S. and international common stock. The balanced mutual and commingled funds invest in a combination of fixed income and equity securities. The mutual and commingled funds are primarily valued using the net asset value, which reflects the plan's share of the fair value of the investments.

(4) The Company's alternative investments include venture capital and partnership investments. Alternative investments are valued using the net asset value, which reflects the plan's share of the fair value of the investments. The Company is generally able to redeem investments at periodic times during the year with notice provided to the general partner.

The table below sets forth a summary of changes in the fair value of the Level 3 investments for the year ended December 31, 2021 (in millions):

	Insurance Contracts
Ending balance, December 31, 2020	$ 39.9
Actual return on assets:	
Related to assets held at reporting date	—
Related to assets sold during the period	—
Purchases, sales, issuances and settlements (1)	(39.9)
Transfers in and/or out of Level 3	—
Ending balance, December 31, 2021	$ —

(1) During the year ended December 31, 2021, all Level 3 assets were distributed in connection with the Spin-Off Transaction.

Expected benefit payments to be paid in each of the next five years and in the aggregate for the five years thereafter are as follows (in millions):

Years Ending December 31:	Pension Benefits	Other Postretirement Benefits
2023	$ 20.2	$ 1.4
2024	20.0	1.4
2025	19.8	1.3
2026	19.5	1.3
2027	19.1	1.3
2028 - 2032	89.2	5.5

Pension Plans That Are Not Fully Funded

At December 31, 2022, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of the fair value of plan assets were $226.3 million, $224.7 million, and $186.2 million, respectively.

At December 31, 2021, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of the fair value of plan assets were $297.9 million, $296.0 million and $249.9 million, respectively.

Other Postretirement Benefits

The other postretirement benefit obligation was determined using an assumed health care cost trend rate of 6.5% in 2023 grading down to 5.0% in 2031 and thereafter. The discount rate, compensation rate increase and health care cost trend rate assumptions are determined as of the measurement date.

Defined Contribution Savings Plans

The Company sponsors certain defined-contribution savings plans for eligible employees. Expense recognized related to these plans was $5.9 million, $5.5 million and $5.7 million during the year ended December 31, 2022, the year ended December 31, 2021, and the nine months ended December 31, 2020**,** respectively. During the year ended December 31, 2022, the Company utilized 67,025 shares of its common stock with a weighted average fair value of $26.53 per share in funding the cost. During the year ended December 31, 2021, the Company utilized 107,113 shares of its common stock with a weighted average fair value of $51.67 per share in funding the cost.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan for certain executives and other highly compensated employees. Assets are invested primarily in mutual funds and corporate-owned life insurance contracts held in a Rabbi trust and restricted for payments to participants of the plan. The assets and liabilities are classified in Other assets and Other liabilities, respectively, on the consolidated balance sheets. Changes in the values of the assets held by the rabbi trust and changes in the value of the deferred compensation liability are recorded in Other income (expense), net in the consolidated statements of operations.

The fair values of the Company's deferred compensation plan assets and liability are included in the table below (in millions). For additional information on the fair value hierarchy and the inputs used to measure fair value, see Note 13, Fair Value Measurements.

	Fair Value as of December 31, 2022			
	Quoted Prices in Active Market (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Deferred compensation plan assets:				
Mutual funds (1)	$ 0.2	$ —	$ —	$ 0.2
Corporate-owned life insurance policies (2)	—	11.3	—	11.3
Total assets at fair value	$ 0.2	$ 11.3	$ —	$ 11.5
Deferred compensation liability at fair value (3):	$ 12.1	$ —	$ —	$ 12.1

	Fair Value as of December 31, 2021			
	Quoted Prices in Active Market (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Deferred compensation plan assets:				
Mutual funds (1)	$ 0.9	$ —	$ —	$ 0.9
Corporate-owned life insurance policies (2)	—	14.4	—	14.4
Total assets at fair value	$ 0.9	$ 14.4	$ —	$ 15.3
Deferred compensation liability at fair value (3):	$ 16.3	$ —	$ —	$ 16.3

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(1) The Company has elected to use the fair value option for the mutual funds to better align the measurement of the assets with the measurement of the liability, which are measured using quoted prices of identical instruments in active markets and are categorized as Level 1.

(2) The corporate-owned life insurance contracts are recorded at cash surrender value, which is provided by a third party and reflects the net asset value of the underlying publicly traded mutual funds, and are categorized as Level 2.

(3) The deferred compensation liability is measured at fair value based on the quoted prices of identical instruments to the investment vehicles selected by the participants.

17. Income Taxes

The provision for income taxes consists of amounts for taxes currently payable, amounts for tax items deferred to future periods; as well as adjustments relating to the Company's determination of uncertain tax positions, including interest and penalties. The Company recognizes deferred tax assets and liabilities based on the future tax consequences attributable to tax net operating loss ("NOL") carryforwards, capital loss carryforwards, tax credit carryforwards and differences between the financial statement carrying amounts and the tax bases of applicable assets and liabilities. Deferred tax assets are regularly reviewed for recoverability and valuation allowances are established based on historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. As a result of this review, the Company established a full valuation allowance against U.S. federal and state capital loss carryforwards, as well as certain state tax credit carryforwards, and continues to maintain a partial valuation allowance against certain foreign NOL carryforwards and other related foreign deferred tax assets, as well as certain U.S. state NOL carryforwards.

Income Tax Provision

The components of the provision for income taxes are as follows (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Current:			
United States	$ 16.7	$ 7.2	$ 12.3
Non-United States	1.8	1.0	0.7
State and local	5.4	2.7	2.6
Total current	23.9	10.9	15.6
Deferred:			
United States	3.4	(8.8)	(2.5)
Non-United States	0.7	(0.1)	(0.4)
State and local	(1.2)	0.7	(2.2)
Total deferred	2.9	(8.2)	(5.1)
Provision for income taxes	$ 26.8	$ 2.7	$ 10.5

The provision for income taxes differs from the United States statutory income tax rate due to the following items (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
Provision for income taxes at U.S. federal statutory income tax rate	$ 17.6	$ 11.0	$ 9.6
State and local income taxes, net of federal benefit	3.4	1.4	1.7
Net effects of foreign rate differential	0.5	(0.2)	(0.1)
Net effects of foreign operations	—	0.8	0.3
Nondeductible acquisition costs	4.2	—	—
Unrecognized tax benefits, net of federal benefit	0.2	1.0	2.0
Excess tax benefits related to equity compensation	(1.2)	(17.7)	(2.6)
§162(m) compensation limitation	3.3	5.1	2.0
Net changes in valuation allowance	(0.8)	1.6	(1.6)
Other	(0.4)	(0.3)	(0.8)
Provision for income taxes	$ 26.8	$ 2.7	$ 10.5

The provision for income taxes was calculated based upon the following components of income from continuing operations before income taxes (in millions):

	Year Ended		Nine-Month Transition Period Ended
	December 31, 2022	December 31, 2021	December 31, 2020
United States	$ 74.5	$ 49.5	$ 44.6
Non-United States	9.3	2.9	0.9
Income before income taxes	$ 83.8	$ 52.4	$ 45.5

Deferred Income Tax Assets and Liabilities

Deferred income taxes consist of the tax effects of the following temporary differences (in millions):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Compensation and retirement benefits	$ 20.2	$ 22.7
General accruals and reserves	17.2	12.5
Lease liabilities	10.7	3.8
State tax net operating loss and credit carryforwards	17.3	19.0
Federal and state capital loss carryforwards	17.7	17.7
Foreign net operating loss carryforwards	1.5	2.7
Other	3.9	1.9
Total deferred tax assets before valuation allowance	88.5	80.3
Valuation allowance	(32.2)	(35.1)
Total deferred tax assets	56.3	45.2
Deferred tax liabilities:		
Property, plant and equipment	29.0	5.8
Lease ROU assets	10.6	3.6
Inventories	14.9	8.0
Intangible assets and goodwill	220.1	26.5
Total deferred tax liabilities	274.6	43.9
Net deferred tax assets (liabilities)	$ (218.3)	$ 1.3
Net amount on Consolidated Balance Sheets consists of:		
Other assets	$ 3.1	$ 4.4
Deferred income taxes	(221.4)	(3.1)
Net long-term deferred tax assets (liabilities)	$ (218.3)	$ 1.3

Management has reviewed the deferred tax assets and has analyzed the uncertainty with respect to ultimately realizing the related tax benefits associated with such assets. Based upon this analysis, management has determined that a valuation allowance should be established for the federal and state capital loss carryforwards, state credit carryforwards, certain foreign NOL carryforwards and related deferred tax assets, as well as certain state NOL carryforwards as of December 31, 2022. Significant factors considered by management in this determination included the historical operating results of the Company, as well as anticipated reversals of future taxable temporary differences. Capital losses may generally only be used to offset available capital gains. Federal capital losses are allowed to be carried back three years and carried forward for five. The Company does not have any capital gains in the carryback period with which to offset any portion of the capital loss. States generally follow federal law with respect to capital losses; however, for those that do have a modification, such modification (in most cases) is to deny any carryback period. The carryforward periods for the state NOLs range from five to twenty years. The state credit carryforwards expire over a period of 15 years. The foreign NOL carryforwards are subject to a twenty-year expiration period.

At December 31, 2022, the Company had approximately $320.2 million of state NOL carryforwards, expiring over various years ending through December 31, 2036. The Company has a tax effected valuation allowance of $12.1 million recorded against the related deferred tax asset. In addition, at December 31, 2022, the Company had approximately $5.5 million of foreign NOL carryforwards, of which there is a recorded tax effected valuation allowance of $1.0 million.

No provision has been made for U.S. federal income taxes related to approximately $19.4 million of undistributed earnings of foreign subsidiaries considered to be permanently reinvested. The additional income tax liability that would result if such earnings were repatriated to the U.S., other than potential out-of-pocket withholding taxes of approximately $1.0 million, would not be expected to be significant to the Company’s consolidated financial statements.

The Company’s total receivable for net accrued income taxes as of December 31, 2022 and 2021 was $16.0 million and $31.0 million, respectively. This net amount is presented in the consolidated balance sheets as income taxes payable (separately disclosed in other current liabilities) of $2.3 million and $2.1 million as of December 31, 2022 and 2021, respectively; and as income taxes receivable in the consolidated balance sheets of $18.3 million and $33.1 million as of December 31, 2022 and 2021, respectively. Net cash paid for income taxes to governmental tax authorities for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $3.1 million, $57.8 million and $44.9 million, respectively.

Liability for Unrecognized Tax Benefits

The Company's total liability for net unrecognized tax benefits as of December 31, 2022 and 2021 was $5.5 million and $5.9 million, respectively.

The following table represents a reconciliation of the beginning and ending amount of the gross unrecognized tax benefits, excluding interest and penalties, for the year ended December 31, 2022 and the year ended December 31, 2021 (in millions):

	Year Ended	
	December 31, 2022	December 31, 2021
Balance at beginning of period	$ 5.9	$ 4.7
Additions based on tax positions related to the current year	0.1	1.2
Additions for tax positions of prior years	0.4	—
Reductions due to lapse of applicable statute of limitations	(1.0)	—
Balance at end of period	$ 5.4	$ 5.9

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2022 and 2021, the total amount of unrecognized tax benefits includes $0.7 million and $0.5 million of gross accrued interest and penalties, respectively. The amount of net interest and penalties recorded as income tax expense during the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 was $0.2 million, $0.2 million, and $0.0 million, respectively.

The Company conducts business in multiple locations within and outside the U.S. Consequently, the Company is subject to periodic income tax examinations by domestic and foreign income tax authorities. Currently, the Company is undergoing routine, periodic income tax examinations in foreign jurisdictions. During the nine-month Transition Period ended December 31, 2020, the Internal Revenue Service (the "IRS") completed an income tax examination of the Company's U.S. consolidated federal income tax returns for the tax years ended March 31, 2016 and 2017. The Company paid approximately $1.5 million upon the conclusion of such examination, all of which was previously accrued in the Company's financial statements. In accordance with the terms of the VAG sale agreement, the Company is required to indemnify the purchaser for any future income tax liabilities associated with all open tax years ending prior to, and including, the short period ended on the date of the Company's sale of VAG. VAG was notified by the German tax authorities of its intention to conduct an income tax examination of the VAG German entities' corporate income and trade tax returns for the tax years ended March 31, 2014 through 2019. Similarly, in accordance with the Spin-Off Transaction, the Company is required to indemnify Regal Rexnord Corporation for any future income tax liabilities associated with PMC entities relating to all open tax years ending prior to, and including, the short period ended on the date of the Spin-Off. There are currently a number of ongoing income tax examinations being conducted by the applicable tax authorities in various foreign tax jurisdictions with respect to certain PMC entities. It appears reasonably possible that the amounts of unrecognized income tax benefits and indemnification liabilities could change in the next twelve months upon conclusion of the current ongoing examinations; however, any potential payments of income tax, interest and penalties are not expected to be significant to the Company's consolidated financial statements. With certain exceptions, the Company is no longer subject to U.S. federal income tax examinations for tax years ending prior to March 31, 2020, state and local income tax examinations for years ending prior to March 31, 2019 or significant foreign income tax examinations for years ending prior to March 31, 2018.

18. Commitments and Contingencies

Contingencies:

The Company's subsidiaries are involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, intellectual property claims and environmental matters. The Company establishes accruals in a manner that is consistent with accounting principles generally accepted in the United States for costs associated with such matters when liability is probable and those costs are capable of being reasonably estimated. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, based upon current information, management believes the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Certain Company subsidiaries are subject to asbestos litigation. As of December 31, 2022, Zurn Elkay and numerous other unrelated companies were defendants in approximately 6,000 asbestos related lawsuits representing approximately 7,000 claims. Plaintiffs' claims allege personal injuries caused by exposure to asbestos used primarily in industrial boilers formerly manufactured by a segment of Zurn Elkay. Zurn Elkay did not manufacture asbestos or asbestos components. Instead, Zurn Elkay purchased them from suppliers. These claims are being handled pursuant to a defense strategy funded by insurers.

As of December 31, 2022, the Company estimates the potential liability for the asbestos-related claims described above, as well as the claims expected to be filed in the next ten years, to be approximately $79.0 million, of which Zurn Elkay expects approximately $58.0 million to be paid in the next ten years on such claims, with the balance of the estimated liability being paid in subsequent years. The $79.0 million was developed based on actuarial studies and represents the projected indemnity payout for current and future claims. There are inherent uncertainties involved in estimating the number of future asbestos claims, future settlement costs, and the effectiveness of defense strategies and settlement initiatives. As a result, actual liability could differ from the estimate described herein and could be substantial. The liability for the asbestos-related claims is recorded in reserve for asbestos claims within the consolidated balance sheets.

Management estimates that the available insurance to cover this ten year estimated potential asbestos liability as of December 31, 2022 is $72.1 million. The Company recorded a receivable from its insurance carriers, which corresponds to the amount of this potential asbestos liability that is covered by available insurance and is currently determined to be probable of recovery. However, there is no assurance the Company's current insurance coverage will ultimately be available or that this asbestos liability will not ultimately exceed the Company's coverage limits. Factors that could cause a decrease in the amount of available coverage or create gaps in coverage include: changes in law governing the policies, potential disputes and settlements with the carriers regarding the scope of coverage, and insolvencies of one or more of the Company's carriers. The receivable for probable asbestos-related recoveries is recorded in insurance for asbestos claims within the consolidated balance sheets. During the year ended December 31, 2022, the Company recorded $6.9 million for the amount that the estimated potential liability exceeds a gap in the Company's estimated available insurance coverage. This expense is recorded in other income (expense), net within the consolidated statements of operations. During the year ended December 31, 2021 and the nine-month Transition Period ended December 31, 2020, no amounts were recorded in the consolidated statements of operations.

19. Common Stock Repurchases

During fiscal 2015, the Company's Board of Directors approved a common stock repurchase program (the "Repurchase Program") authorizing the repurchase of up to $200.0 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. On January 27, 2020, the Company's Board of Directors approved to increase the remaining share repurchase authority under the Repurchase Program to $300.0 million. The Repurchase Program does not require the Company to acquire any particular amount of common stock and does not specify the timing of purchases or the prices to be paid; however, the program will continue until the maximum amount of dollars authorized have been expended or until it is modified or terminated by the Board. During the year ended December 31, 2022, the Company repurchased 1.1 million shares of common stock at a total cost of $24.7 million at a weighted average price of $23.00 per share. During the year ended December 31, 2021, the Company repurchased 22,300 shares of common stock at a total cost of $0.9 million at a weighted average price of $39.27 per share. During the nine-month Transition Period ended December 31, 2020, the Company repurchased 1.7 million shares of common stock at a total cost of $59.3 million at a weighted average price of $34.97 per share. The repurchased shares were canceled by the Company upon receipt. At December 31, 2022, a total of approximately $138.1 million of repurchase authority remained under the Repurchase Program.

Effective February 8, 2023, the Board approved an increase in the remaining share repurchase authority under the Repurchase Program to $500.0 million.

20. Quarterly Results of Operations (unaudited)
(in millions, except per share amounts)

	Year Ended December 31, 2022				
	First Quarter	Second Quarter	Third Quarter (1)	Fourth Quarter	Total
Net sales	$ 239.6	$ 284.2	$ 417.7	$ 340.3	$ 1,281.8
Gross profit	101.9	113.8	140.4	109.4	465.5
Net income from continuing operations	29.4	36.4	(19.1)	10.3	57.0
Income from discontinued operations, net of tax	0.8	—	—	3.9	4.7
Net income (loss)	$ 30.2	$ 36.4	$ (19.1)	$ 14.2	$ 61.7
Basic net income (loss) per share					
Continuing operations	$ 0.23	$ 0.29	$ (0.11)	$ 0.06	$ 0.38
Discontinued operations	$ 0.01	$ —	$ —	$ 0.02	$ 0.03
Net income (loss)	$ 0.24	$ 0.29	$ (0.11)	$ 0.08	$ 0.41
Diluted net income (loss) per share					
Continuing operations	$ 0.23	$ 0.28	$ (0.11)	$ 0.06	$ 0.37
Discontinued operations	$ 0.01	$ —	$ —	$ 0.02	$ 0.03
Net income (loss)	$ 0.24	$ 0.28	$ (0.11)	$ 0.08	$ 0.40

	Year Ended December 31, 2021				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (2)	Total
Net sales	$ 205.2	$ 243.7	$ 229.7	$ 232.3	$ 910.9
Gross profit	88.4	103.8	95.8	85.2	373.2
Net income from continuing operations	10.0	20.6	16.1	3.0	49.7
Income (loss) from discontinued operations, net of tax	40.0	52.6	48.0	(69.4)	71.2
Net income (loss)	$ 50.0	$ 73.2	$ 64.1	$ (66.4)	$ 120.9
Basic net income (loss) per share					
Continuing operations	$ 0.08	$ 0.17	$ 0.13	$ 0.02	$ 0.41
Discontinued operations	$ 0.33	$ 0.44	$ 0.40	$ (0.56)	$ 0.59
Net income (loss)	$ 0.42	$ 0.61	$ 0.53	$ (0.53)	$ 1.00
Diluted net income (loss) per share					
Continuing operations	$ 0.08	$ 0.17	$ 0.13	$ 0.02	$ 0.40
Discontinued operations	$ 0.32	$ 0.42	$ 0.38	$ (0.54)	$ 0.57
Net income (loss)	$ 0.40	$ 0.59	$ 0.51	$ (0.52)	$ 0.97

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(1) The third quarter of the year ended December 31, 2022 includes the recognition of $33.7 million of transaction-related costs in connection with the Elkay Merger. Refer to Note 3, Acquisitions for additional information.

(2) The fourth quarter of the year ended December 31, 2021 includes the recognition of a $20.4 million loss on extinguishment of debt following the refinancing of the Company's debt in connection with the Spin-Off Transaction. Refer to Note 11, Long-Term Debt for additional information. In addition, the Company recognized approximately $60.0 million of separation costs in connection with the Spin-Off Transaction that was recorded within the loss from discontinued operations, net of tax. Refer to Note 4, Discontinued Operations for additional information.

21. Subsequent Event

On February 1, 2023, the Company's Board of Directors declared a quarterly cash dividend on the Company's common stock of $0.07 per-share to be paid on March 7, 2023, to stockholders of record as of February 21, 2023.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures are adequate and effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, in a manner allowing timely decisions regarding required disclosure. As such, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon that evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2022.

Management's assessment of internal control over financial reporting as of December 31, 2022 excludes the internal control over financial reporting related to Elkay Manufacturing Company (acquired in the third quarter of 2022), which is included in the 2022 consolidated financial statements of Zurn Elkay Water Solutions Corporation. As of December 31, 2022, Elkay Manufacturing Company constituted $1,248.7 million and $912.0 million of total and net assets, respectively, and net sales of $264.4 million and a net loss of $11.5 million, for the year then ended. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or deterioration in the degree of compliance with the policies or procedures.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2022, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

On February 13, 2023, Zurn Elkay Water Solutions Corporation announced that the Company and Rodney Jackson, Senior Vice President – Business & Corporate Development, mutually agreed that Mr. Jackson will end his employment effective February 17, 2023. Pursuant to an Agreement and General Release, Mr. Jackson will receive cash payments equal to $410,000, and certain other benefits. The Agreement and General Release also provides for a release of any claims. The Agreement and General Release is filed as Exhibit 10.17 to this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference from the sections entitled "Proposal 1: Election of Directors" and "Corporate Governance" in the definitive proxy statement for the Company's annual meeting, to be held on or about May 4, 2023 (the Proxy Statement"), and from the information under the caption "Information about our Executive Officers" in Part I hereof.

Code of Ethics

We have adopted a written code of ethics, referred to as the Zurn Code of Business Conduct and Ethics, applicable to all directors, officers and employees, which includes provisions relating to accounting and financial matters applicable to the principal executive officer, principal financial officer and principal accounting officer and controller. We have posted a copy of the Code of Business Conduct and Ethics on our website at www.zurn-elkay.com. To obtain a copy, free of charge, please submit a written request to Zurn Elkay Investor Relations, 511 West Freshwater Way, Milwaukee, Wisconsin, 53204. If we make any substantive amendments to, or grant any waivers from, the code of ethics for any director or officer, we will disclose the nature of such amendment or waiver on our corporate website at www.zurn-elkay.com or in a Current Report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference from the sections entitled "Proposal 1: Election of Directors", "Corporate Governance", "Compensation Discussion and Analysis", "Compensation Committee Report", "Executive Compensation," and "Corporate Governance - Directors' Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated by reference from the sections entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Equity Compensation Plan Information

The following chart gives aggregate information regarding grants under all equity compensation plans of the Company through December 31, 2022.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders (1)	4,542,057	$13.75	3,286,144
Equity compensation plans not approved by security holders	None	None	None
Total	4,542,057	$13.75	3,286,144

(1) Represents options, PSUs and RSUs granted under the Incentive Plan.

(2) The average exercise price excludes PSUs and RSUs.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference from the sections entitled "Corporate Governance" and "Certain Relationships and Related Party Transactions" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference from the section entitled "Report of the Audit Committee" and "Auditors" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The Company's consolidated financial statements included in Item 8 hereof are for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 consist of the following:

Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules.

The Financial Statement Schedule of the Company appended hereto for the year ended December 31, 2022, the year ended December 31, 2021, and the nine-month Transition Period ended December 31, 2020 consists of the following:

Schedule II – Valuation and Qualifying Accounts
(in Millions)

Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions (1)	Balance at End of Year
Nine-Month Transition Period Ended December 31, 2020					
Valuation allowance for trade and notes receivable	0.9	0.3	—	(0.4)	0.8
Valuation allowance for income taxes	38.4	0.1	0.3	(2.0)	36.8
Year Ended December 31, 2021					
Valuation allowance for trade and notes receivable	0.8	0.8	—	(0.4)	1.2
Valuation allowance for income taxes	36.8	1.8	0.8	(4.3)	35.1
Year Ended December 31, 2022					
Valuation allowance for trade and notes receivable	1.2	1.0	—	(0.8)	1.4
Valuation allowance for income taxes	35.1	0.1	0.3	(3.3)	32.2

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(1) Uncollectible amounts, dispositions charged against the accrual and utilization of net operating losses.

All other schedules have been omitted because they are not applicable or because the information required is included in the notes to the consolidated financial statements.

(a) (3) Exhibits.

See Exhibit Index included after the signature page to this report, which Exhibit Index is incorporated by reference herein.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ZURN ELKAY WATER SOLUTIONS CORPORATION

By:	/s/ Todd A. Adams
Name:	Todd A. Adams
Title:	Chairman of the Board and Chief Executive Officer
Date:	February 14, 2023

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Todd A. Adams, Mark W. Peterson and Jeffrey J. LaValle, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and any other regulatory authority, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Todd A. Adams Todd A. Adams	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 14, 2023
/s/ Mark W. Peterson Mark W. Peterson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 14, 2023
/s/ Mark S. Bartlett Mark S. Bartlett	Director	February 14, 2023
/s/ Jacques Don Butler Jacques Don Butler	Director	February 14, 2023
/s/ Thomas D. Christopoul Thomas D. Christopoul	Director	February 14, 2023
/s/ Timothy J. Jahnke Timothy J. Jahnke	Director	February 14, 2023
/s/ David C. Longren David C. Longren	Director	February 14, 2023
/s/ George C. Moore George C. Moore	Director	February 14, 2023
/s/ Rosemary M. Schooler Rosemary M. Schooler	Director	February 14, 2023
/s/ John S. Stroup John S. Stroup	Director	February 14, 2023
/s/ Peggy N. Troy Peggy N. Troy	Director	February 14, 2023

EXHIBIT INDEX

Exhibit	Description	Incorporated Herein by Reference to	Filed Herewith
2.1	Stock Purchase Agreement dated as of April 5, 2005, by and among Rexnord LLC, Hamilton Sundstrand Corporation and The Falk Corporation+	Exhibit 99.2 to the Form 8-K filed by RBS Global, Inc./Rexnord LLC on May 19, 2005	
2.2	Agreement and Plan of Merger, dated as of February 15, 2021, by and among Regal Beloit Corporation Phoenix 2021, Inc., Rexnord Corporation and Land Newco, Inc.+	Exhibit 2.1 to the Company's Form 8-K filed February 19, 2021	
2.3	Separation and Distribution Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation+	Exhibit 2.2 to the Company's Form 8-K filed February 19, 2021	
2.4	Agreement and Plan of Merger, dated as of February 12, 2022, by and among Zurn, Elkay, Merger Sub, and Elkay Interior Systems International, Inc.	Exhibit 2.1 to the Company's Form 8-K filed February 14, 2022	
3.1(a)	Amended and Restated Certificate of Incorporation as amended through July 1, 2022	Exhibit 3.1 to the Company's Form 10-Q filed July 26, 2022	
3.1(b)	Certificate of Designations of the 5.75% Series A Mandatory Convertible Preferred Stock of Rexnord Corporation, filed with the Secretary of State of the State of Delaware and effective December 7, 2016 (expired by its terms)	Exhibit 3.1 to the Company's Form 8-K dated December 1, 2016	
3.2	Amended and Restated By-Laws, as amended through July 1, 2022	Exhibit 3.2 to the Company's Form 8-K filed July 1, 2022	
4.1	Indenture, dated as of December 7, 2017, by and among RBS Global, Inc., Rexnord LLC, the guarantors named therein and Wells Fargo Bank, National Association, as trustee	Exhibit 4.1 to the Company's Form 8-K dated December 7, 2017	
4.2	Form of RBS Global, Inc. and Rexnord LLC 4.875% Senior Notes due 2025 (included in Exhibit 4.1 hereto)	Exhibit 4.2 to the Company's Form 8-K dated December 7, 2017	
4.3	Parent Guarantee, dated as of December 7, 2017, by and between Rexnord Corporation and Wells Fargo Bank, National Association, as trustee	Exhibit 4.3 to the Company's Form 8-K dated December 7, 2017	
4.4	Description of Securities	Exhibit 4.4 to the Company's Form 10-K for the fiscal year ended March 31, 2020	
10.1(a)	The Company's 2006 Stock Option Plan, as amended ("2006 Option Plan")* (superseded)	Exhibit 10.6 to the Form 10-K filed by RBS Global, Inc./Rexnord LLC for the fiscal year ended March 31, 2010	
10.1(b)	Form of Executive Non-Qualified Stock Option Agreement under the 2006 Option Plan*	Exhibit 10.10 to the Form 8-K/A filed by RBS Global, Inc./Rexnord LLC on July 27, 2006	
10.1(c)	Board Observer Agreement, dated as of February 12, 2022, by and among Zurn and Ronald Katz	Exhibit 10.1 to the Form 8-K filed February 14, 2022	
10.1(d)	Registration Rights Agreement, dated as of July 1, 2022, by and between Zurn and certain stockholders of Elkay party thereto (includes amendments to the Standstill and Lock-Up Agreements, dated as of February 12, 2022, between the Company and certain former stockholders of Elkay)	Exhibit 10.1 to the Form 8-K filed July 1, 2022	
10.1(e)	Form of Standstill and Lock-Up Agreement, dated as of February 12, 2022, by and among Zurn, and the Elkay stockholders party thereto	Exhibit 10.3 to the Company's Form 8-K filed February 14, 2022	
10.1(f)	Form of Support Agreement, dated as of February 13, 2022, by and among Zurn and the Support Stockholders	Exhibit 10.2 to the Company's Form 8-K filed February 14, 2022	
10.2	Rexnord Management Incentive Compensation Plan for Executive Officers*	Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2020	
10.3(a)	Zurn Elkay Water Solutions Corporation Performance Incentive Plan, as amended and restated as of July 1, 2022 *	Exhibit 10.3 to the Company's Form 8-K filed July 1, 2022	

10.3(b)	Rexnord Corporation Performance Incentive Plan, as amended and restated effective May 18, 2016 * (superseded except with respect to certain outstanding awards)	Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on June 10, 2016
10.3(c)	Rexnord Corporation 2012 Performance Incentive Plan (now known as the Performance Incentive Plan)* (superseded version)	Exhibit 10.32 to the Company's Registration Statement on Form S-1, SEC File No. 333-174504
10.3(d)	Form of Option Agreement under the Performance Incentive Plan* (current)	Exhibit 10.3(c) to the Company's Form 10-K for the fiscal year ended March 31, 2018
10.3(e)	Form of Performance Stock Unit Agreement under the Performance Incentive Plan* (current)	Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2020
10.3(f)	Form of Performance Stock Unit Agreement under the Performance Incentive Plan* (superseded except with respect to outstanding awards)	Exhibit 10.3(d) to the Company's Form 10-K for the fiscal year ended March 31, 2018
10.3(g)	Form of Restricted Stock Unit Agreement under the Performance Incentive Plan* (current)	Exhibit 10.3(e) to the Company's Form 10-K for the fiscal year ended March 31, 2018
10.3(h)	Form of Option Agreement under the Performance Incentive Plan* (used for prior grants; superseded)	Exhibit 10.4 to the Company's Form 10-Q for the quarter ended June 30, 2012
10.3(i)	Form of Option and Restricted Stock Unit Agreement under the Performance Incentive Plan* (used for prior grants; superseded)	Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2014
10.3(j)	Form of Non-Qualified Stock Option and Performance Stock Unit Agreement under the Performance Incentive Plan* (used for prior grants; superseded)	Exhibit 10.6 to the Company's 10-Q for the quarter ended June 30, 2016
10.3(k)	Form of Non-Qualified Stock Option and Performance Stock Unit Agreement under the Performance Incentive Plan* (used for prior grants; superseded)	Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2015
10.3(l)	Form of Restricted Stock Unit Agreement (Deferred RSUs) for Directors under the Performance Incentive Plan (current)*	Exhibit 10.3(f) to the Company's Form 10-K for the fiscal year ended March 31, 2016
10.4	Letter Agreement dated December 13, 2018, between Rexnord Corporation and Todd A. Adams*	Exhibit 10.1 to the Company's Form 8-K dated December 13, 2018
10.5	Form of Letter Agreement with Executive Officers*	Exhibit 10.3 to the Company's Form 8-K dated May 18, 2016 (filed on May 24, 2016)
10.6	Rexnord Corporation Deferred Compensation Plan, effective as of January 1, 2016 (as amended July 26, 2017)*	Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2017
10.7	Rexnord Corporation Executive Severance Plan, Effective May 18, 2016 (as amended effective April 1, 2018)*	Exhibit 10.8 to the Company's Form 10-K for the fiscal year ended March 31, 2018
10.8	Rexnord Corporation Executive Change in Control Plan, as amended through December 13, 2018*	Exhibit 10.2 to the Company's Form 8-K dated December 13, 2018
10.9(a)	Schedule of Compensation and Stock Ownership Guidelines for outside members of the board, effective as of July 23, 2020*	Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2020
10.9(b)	Schedule of Compensation and Stock Ownership Guidelines for outside members of the board, revised as of May 2019* (superseded)	Exhibit 10.10(a) to the Company's Form 10-K for the fiscal year ended March 31, 2019
10.10	Form of Indemnification Agreement*	Exhibit 10.3 to the Company's Form 10-Q for the quarter ended December 31, 2017
10.11(a)	Third Amended and Restated First Lien Credit Agreement dated as of August 21, 2013, as adopted pursuant, and filed as Exhibit B, to the Incremental Assumption Agreement dated as of August 21, 2013 relating to the Second Amended and Restated Credit Agreement dated as of March 15, 2012, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, certain subsidiaries of Rexnord LLC, the lenders party thereto and Credit Suisse AG, as administrative agent	Exhibit 10.1 to the Company's Form 8-K dated August 21, 2013

10.11(b)	Incremental Assumption Agreement, dated as of November 2, 2016, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, certain domestic subsidiaries of Rexnord LLC, the lenders party thereto, and Credit Suisse AG, as administrative agent, related to the Third Amended and Restated First Lien Credit Agreement (revolving facility)	Exhibit 10.1 to the Company's Form 8-K dated November 2, 2016
10.11(c)	Incremental Assumption Agreement, dated as of December 16, 2016, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, certain domestic subsidiaries of Rexnord LLC, Credit Suisse AG, Cayman Islands Branch and Credit Suisse AG, as administrative agent, related to the Third Amended and Restated First Lien Credit Agreement (term loan facility)	Exhibit 10.1 to the Company's Form 8-K dated December 16, 2016
10.11(d)	Incremental Assumption Agreement, dated as of December 7, 2017, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, certain domestic subsidiaries of Rexnord Corporation, Credit Suisse AG, Cayman Islands Branch, as administrative agent, Credit Suisse AG, Cayman Islands Branch, as refinancing term lender, and the other lenders party thereto (term loan and revolving facilities)	Exhibit 10.1 to the Company's Form 8-K dated December 7, 2017
10.11(e)	Incremental Assumption Agreement, dated as of November 21, 2019, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, certain domestic subsidiaries of Rexnord LLC, Credit Suisse AG, Cayman Islands Branch as the refinancing term lender and Credit Suisse AG, Cayman Islands Branch as administrative agent (term loan and revolving facilities).	Exhibit 10.1 to the Company's Form 8-K dated November 21, 2019
10.11(f)	Fourth Amended and Restated First Lien Credit Agreement, dated as of October 4, 2021, by and among Zurn Holdings, Inc., Zurn LLC, ZBS Global, Inc., the lenders party thereto, and Credit Suisse AG, as administrative agent+	Exhibit 10.2 to the Company's Form 8-K filed on October 5, 2021
10.11(g)	Amendment No. 1 to Fourth Amended and Restated First Lien Credit Agreement, dated as of July 1, 2022, by and between ZBS Global, Inc., Zurn Holdings, Inc., Zurn LLC, Elkay and the other loan parties party thereto	Exhibit 10.2 to the Company's Form 8-K filed July 1, 2022
10.12(a)	Second Amended and Restated Guarantee and Collateral Agreement, dated and effective as of March 15, 2012, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, each subsidiary of the borrowers identified therein and Credit Suisse AG, as Administrative Agent for the Credit Agreement Secured Parties	Exhibit 10.2 to the Form 8-K filed by RBS Global, Inc./Rexnord LLC on March 16, 2012
10.12(b)	Third Amended and Restated Guarantee and Collateral Agreement, dated as of October 4, 2021, among ZBS Global, Inc., Zurn Holdings, Inc., Zurn LLC, the subsidiaries party thereto, and Credit Suisse AG, as administrative agent+	Exhibit 10.3 to the Company's Form 8-K filed on October 5, 2021
10.13	Amended and Restated Receivables Sale and Servicing Agreement, entered into as of September 25, 2020, by and among each of the originators signatory thereto from time to time, Rexnord Industries, LLC in its capacity as servicer thereunder and Rexnord Funding LLC, as buyer	Exhibit 10.1 to the Company's Form 8-K dated September 25, 2020
10.14	Receivables Funding and Administration Agreement, entered into as of September 25, 2020, by and among Rexnord Funding LLC as the borrower, the financial institutions signatory thereto from time to time as lenders, and Mizuho Bank, Ltd., as a lender and as administrative agent for the lenders thereunder	Exhibit 10.2 to the Company's Form 8-K dated September 25, 2020
10.15(a)	Tax Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation+	Exhibit 10.1 to the Company's Form 8-K filed February 19, 2021
10.15(b)	Employee Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation+	Exhibit 10.2 to the Company's Form 8-K filed February 19, 2021

10.15(c)	Real Estate Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation+	Exhibit 10.3 to the Company's Form 8-K filed February 19, 2021	
10.15(d)	Intellectual Property Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation+	Exhibit 10.4 to the Company's Form 8-K filed February 19, 2021	
10.15(e)	Commitment Letter, dated as of February 14, 2021, by and between Rexnord, Credit Suisse AG, Cayman Islands Branch and Credit Suisse Loan Funding LLC+	Exhibit 10.5 to the Company's Form 8-K filed February 19, 2021	
10.15(f)	Bridge Facility Commitment Letter, dated as of February 15, 2021, by and between Land and Barclays Bank PLC+	Exhibit 10.6 to the Company's Form 8-K filed February 19, 2021	
10.15(g)	Transition Services Agreement, dated as of October 4, 2021, by and among Rexnord Corporation and Land Newco, Inc.+	Exhibit 10.1 to the Company's Form 8-K filed October 5, 2021	
10.16	Agreement and General Release, last signed on December 31, 2021, by George J. Powers and Zurn Water Solutions Corporation*	Exhibit 10.1 to the Company's Form 8-K filed January 5, 2022	
10.17	Agreement and General Release, last signed on February 13, 2023, by Rodney Jackson and Zurn Elkay Water Solutions Corporation*		X
21.1	List of Subsidiaries of the Company		X
23.1	Consent of Independent Registered Public Accounting Firm		X
24	Power of Attorney	Signatures page hereto	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.		X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.		X
32.1	Certification of Chief Executive Officer and Chief Financial Officer		X
101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.)		X
101.SCH	Inline XBRL Taxonomy Extension Schema Document		X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document		X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document		X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document		X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document		X
104	Cover Page Inline XBRL data (contained in Exhibit 101)		X

* Denotes management plan or compensatory plan or arrangement.

\+ The Company agrees to furnish supplementally a copy of the schedules omitted from this exhibit to the Commission upon request.

Management & Directors

Management

Todd A. Adams
Chairman and Chief Executive Officer

Mark W. Peterson
Senior Vice President and Chief Financial Officer

Sudhanshu Chhabra
Vice President, Zurn Elkay Business Systems

Jeffrey J. LaValle
Vice President, General Counsel and Secretary

Jeffrey A. Schoon
Executive Vice President

Kate M. Silha
Chief Human Resources Officer

Michael D. Troutman
Chief Information Officer

Craig G. Wehr
Chief Operating Officer

Directors

Todd A. Adams (e*)
Chairman and Chief Executive Officer,
Zurn Elkay Water Solutions

Mark S. Bartlett (a, e)
Lead Director, Zurn Elkay Water Solutions;
Retired Partner, Ernst & Young LLP

Don Butler (a, c)
Retired Executive Director,
Connected Vehicles, Ford Motor Company

Thomas D. Christopoul (b*)
Co-founder, Managing Partner and
Executive Vice President, 54 Madison Partners

Timothy J. Jahnke
Retired President and Chief Executive Officer,
Elkay Manufacturing Company

David C. Longren (b, d*)
Retired Senior Vice President,
Polaris Industries Inc.

Emma M. McTague (b, c)
Senior Vice President and Chief Human Resources
Officer, Oshkosh Corporation

George C. Moore (a*, d)
Director and Executive Chairman, IPS Corporation;
Director, Cypress Performance Group LLC
and CP Atlas Parent Holding, L.P.

Rose M. Schooler (b)
Retired Corporate Vice President,
Global Data Center Sales, Intel Corporation

John S. Stroup (c, e)
Retired Chief Executive Officer, Belden Inc.

Peggy N. Troy (c*, d)
President and Chief Executive Officer,
Children's Hospital of Wisconsin

Committees of the Board

(a) Audit; (b) Compensation; (c) Nominating and Corporate Governance; (d) Environmental, Social and Governance; (e) Executive

*denotes Committee Chairperson

Non-GAAP Financial Information

In this report, we provide certain non-GAAP supplemental financial information that we believe is useful to our stockholders in assessing our performance. Adjusted EBITDA is provided because it is a key metric used to measure our compliance with our financial covenants under our credit agreement. This measure should not be considered as an alternative to net income, income from operations, or any other performance measures derived in accordance with GAAP. Adjusted net income and adjusted earnings per share are useful in assessing our financial performance by excluding items that are not indicative of our core operating performance. Free cash flow is defined as cash flow from operations less capital expenditures, and we use this metric in analyzing our ability to service and repay our debt and to forecast future periods. However, this measure does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service our debt or pay dividends. Core sales excludes the impact of acquisitions, divestitures, discontinued operations and foreign currency translation. Management believes that core sales facilitates easier and more meaningful comparison of our net sales performance with prior and future periods and to our peers. Management uses the other non-GAAP supplemental information to assess our ongoing financial performance because it provides additional insight into that performance by eliminating certain unusual or non-recurring items that we do not believe are indicative of continuing trends. In considering this non-GAAP supplemental information, please refer to the explanations and reconciliations provided or referenced in this report, including our annual report on Form 10-K for the year ended December 31, 2022, and our other filings with the Securities and Exchange Commission.

Cautionary Statement on Forward-Looking Statements

Information in this report may involve outlook, expectations, beliefs, plans, intentions, strategies or other statements regarding the future, which are forward-looking statements. These forward-looking statements involve risks and uncertainties. All forward-looking statements included in this report are based on information available to Zurn Elkay Water Solutions as of the date of the report, and Zurn Elkay Water Solutions assumes no obligation to update any such forward-looking statements. The statements in this report are not guarantees of future performance, and actual results could differ materially from current expectations. Numerous factors could cause or contribute to such differences. Please refer to "Risk Factors" and "Cautionary Notice Regarding Forward-Looking Statements" in our annual report on Form 10-K for the year ended December 31, 2022, as well as Zurn Elkay's annual, quarterly and current reports filed on Forms 10-K, 10-Q and 8-K from time to time with the Securities and Exchange Commission for a further discussion of the factors and risks associated with the business.

Sustainably Inspired

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