MUELLER INDUSTRIES INC
Form 10-Q
October 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

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

For the quarterly period ended October 1, 2016   Commission file number 1–6770

MUELLER INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	25-0790410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8285 Tournament Drive, Suite 150	
Memphis, Tennessee	38125
(Address of principal executive offices)	(Zip Code)

(901) 753-3200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

The number of shares of the Registrant's common stock outstanding as of October 24, 2016 was 57,378,695.

MUELLER INDUSTRIES, INC.

FORM 10-Q

For the Quarterly Period Ended October 1, 2016

As used in this report, the terms "Company," "Mueller," and "Registrant" mean Mueller Industries, Inc. and its consolidated subsidiaries taken as a whole, unless the context indicates otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	For the Quarter Ended October 1, 2016	For the Quarter Ended September 26, 2015	For the Nine Months Ended October 1, 2016	For the Nine Months Ended September 26, 2015
Net sales	$506,584	$535,184	$1,583,464	$1,628,019
Cost of goods sold	424,668	467,167	1,327,370	1,398,366
Depreciation and amortization	9,016	8,749	26,997	24,790
Selling, general, and administrative expense	32,413	32,241	102,707	97,922
Asset impairments	3,000	—	3,000	570
Gain on sale of assets	—	—	—	(15,376)
Severance	—	—	—	3,442
Operating income	37,487	27,027	123,390	118,305
Interest expense	(1,830)	(1,682)	(5,370)	(5,977)
Other income, net	120	164	880	534
Income before income taxes	35,777	25,509	118,900	112,862
Income tax expense	(10,837)	(5,223)	(38,963)	(36,374)
Income (loss) from unconsolidated affiliates, net of tax	1,122	(2,191)	3,049	(2,191)
Consolidated net income	26,062	18,095	82,986	74,297
Net income attributable to noncontrolling interests	(84)	(295)	(581)	(868)
Net income attributable to Mueller Industries, Inc.	$25,978	$17,800	$82,405	$73,429
Weighted average shares for basic earnings per share	56,631	56,375	56,536	56,272
Effect of dilutive stock-based awards	586	598	589	690
Adjusted weighted average shares for diluted earnings per share	57,217	56,973	57,125	56,962
Basic earnings per share	$0.46	$0.32	$1.46	$1.30
Diluted earnings per share	$0.45	$0.31	$1.44	$1.29
Dividends per share	$0.100	$0.075	$0.275	$0.225

See accompanying notes to condensed consolidated financial statements.

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MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	For the Quarter Ended October 1, 2016	For the Quarter Ended September 26, 2015	For the Nine Months Ended October 1, 2016	For the Nine Months Ended September 26, 2015
Consolidated net income	$26,062	$ 18,095	$82,986	$74,297
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(4,304)	(12,153)	(15,601)	(13,501)
Net change with respect to derivative instruments and hedging activities	(139) (1)	(915) (2)	1,155 (3)	(2,016) (4)
Net decrease in minimum pension and postretirement obligation adjustments	743 (5)	1,231 (6)	3,445 (7)	2,000 (8)
Attributable to unconsolidated affiliates	5,112 (9)	—	6,550 (10)	—
Other, net	54	(53)	77	(46)
Total other comprehensive income (loss)	1,466	(11,890)	(4,374)	(13,563)
Consolidated comprehensive income	27,528	6,205	78,612	60,734
Comprehensive (income) loss attributable to noncontrolling interests	(480)	709	382	534
Comprehensive income attributable to Mueller Industries, Inc.	$27,048	$ 6,914	$78,994	$61,268

See accompanying notes to condensed consolidated financial statements.

(1) Net of tax of $(119)
(2) Net of tax of $575
(3) Net of tax of $(606)
(4) Net of tax of $1,014
(5) Net of tax of $(255)
(6) Net of tax of $(429)
(7) Net of tax of $(1,175)
(8) Net of tax of $(715)
(9) Net of tax of $(2,888)
(10) Net of tax of $(3,700)

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MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share data)	October 1, 2016	December 26, 2015
Assets		
Current assets:		
Cash and cash equivalents	$297,793	$274,844
Accounts receivable, less allowance for doubtful accounts of $554 in 2016 and $623 in 2015	295,672	251,571
Inventories	251,130	239,378
Other current assets	28,999	34,608
Total current assets	873,594	800,401
Property, plant, and equipment, net	289,074	280,224
Goodwill, net	128,004	120,252
Intangible assets, net	37,386	40,636
Investment in unconsolidated affiliates	79,199	65,900
Other assets	18,864	31,388
Total assets	$1,426,121	$1,338,801
Liabilities		
Current liabilities:		
Current portion of debt	$16,907	$11,760
Accounts payable	92,451	88,051
Accrued wages and other employee costs	34,447	35,636
Other current liabilities	58,395	73,982
Total current liabilities	202,200	209,429
Long-term debt, less current portion	213,847	204,250
Pension liabilities	14,517	17,449
Postretirement benefits other than pensions	17,021	17,427
Environmental reserves	20,708	20,943
Deferred income taxes	19,106	7,161
Other noncurrent liabilities	2,118	2,440
Total liabilities	489,517	479,099
Equity		
Mueller Industries, Inc. stockholders' equity:		
Preferred stock - $1.00 par value; shares authorized 5,000,000; none outstanding	—	—
Common stock - $.01 par value; shares authorized 100,000,000; issued 80,183,004; outstanding 57,378,695 in 2016 and 57,158,608 in 2015	802	802
Additional paid-in capital	271,476	271,158
Retained earnings	1,130,249	1,063,543
Accumulated other comprehensive loss	(58,401)	(54,990)

Treasury common stock, at cost	(450,354)	(453,228)
Total Mueller Industries, Inc. stockholders' equity	893,772	827,285
Noncontrolling interests	42,832	32,417
Total equity	936,604	859,702
Commitments and contingencies	—	—
Total liabilities and equity	$1,426,121	$1,338,801

See accompanying notes to condensed consolidated financial statements.

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MUELLER INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended	
(In thousands)	October 1, 2016	September 26, 2015
Cash flows from operating activities		
Consolidated net income	$82,986	$74,297
Reconciliation of consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	27,267	25,132
Stock-based compensation expense	4,553	4,611
Equity in (earnings) losses of unconsolidated affiliates	(3,049)	2,191
Gain on disposal of assets	(747)	(14,875)
Impairment charges	3,000	570
Deferred income taxes	6,491	(8,262)
Income tax benefit from exercise of stock options	—	(953)
Changes in assets and liabilities, net of businesses acquired:		
Receivables	(45,780)	5,249
Inventories	(914)	29,901
Other assets	14,428	4,302
Current liabilities	(15,998)	(27,580)
Other liabilities	(2,101)	740
Other, net	450	145
Net cash provided by operating activities	70,586	95,468
Cash flows from investing activities		
Capital expenditures	(15,632)	(22,502)
Acquisition of businesses, net of cash acquired	(20,533)	(107,405)
Net withdrawals from restricted cash balances	1,177	1,822
Investment in unconsolidated affiliates	—	(65,900)
Proceeds from sales of assets	5,301	5,521
Net cash used in investing activities	(29,687)	(188,464)
Cash flows from financing activities		
Dividends paid to stockholders of Mueller Industries, Inc.	(15,555)	(12,669)
Dividends paid to noncontrolling interests	(3,765)	—
Issuance of long-term debt	2,000	—
Issuance (repayment) of debt by joint ventures, net	5,006	(21,597)
Net cash used to settle stock-based awards	(1,356)	(718)
Repayments of long-term debt	(769)	(750)
Income tax benefit from exercise of stock options	—	953
Net cash used in financing activities	(14,439)	(34,781)
Effect of exchange rate changes on cash	(3,511)	(3,612)

Increase (decrease) in cash and cash equivalents	22,949	(131,389)
Cash and cash equivalents at the beginning of the period	274,844	352,134
Cash and cash equivalents at the end of the period	$297,793	$220,745

See accompanying notes to condensed consolidated financial statements.

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MUELLER INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

General

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Results of operations for the interim periods presented are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K, including the annual financial statements incorporated therein.

The accompanying unaudited interim financial statements include all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented herein. The fiscal nine months and quarter ended October 1, 2016 contained 40 weeks and 13 weeks, respectively, while the fiscal nine months and quarter ended September 26, 2015 contained 39 weeks and 13 weeks, respectively.

Note 1 – Earnings per Common Share

Basic per share amounts have been computed based on the average number of common shares outstanding. Diluted per share amounts reflect the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options and vesting of restricted stock awards, computed using the treasury stock method. Approximately 218 thousand and 383 thousand stock-based awards were excluded from the computation of diluted earnings per share for the quarters ended October 1, 2016 and September 26, 2015, respectively, because they were antidilutive.

Note 2 – Acquisitions and Dispositions

Acquisitions

On April 26, 2016, the Company entered into an agreement providing for the purchase of a 60.0 percent equity interest in Jungwoo Metal Ind. Co., LTD (Jungwoo-Mueller) for approximately $20.5 million in cash. Jungwoo-Mueller, which manufactures copper-based pipe joining products, is headquartered in Seoul, South Korea and serves markets worldwide. It complements the Company's existing copper fittings businesses in the Piping Systems segment and is reported in the Company's Condensed Consolidated Financial Statements one month in arrears.

This acquisition was accounted for using the acquisition method of accounting whereby the total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on respective fair values.

The fair value of the assets acquired totaled $48.8 million, consisting primarily of property, plant, and equipment of $25.9 million, inventories of $15.8 million, accounts receivable of $5.6 million, and other current assets of $1.5 million. The fair value of the liabilities assumed totaled $17.3 million, consisting primarily of long-term debt of $8.7 million, accounts payable of $7.3 million, pension liabilities of $0.8 million, and other current liabilities of $0.5 million. Of the remaining purchase price, $3.6 million was allocated to non-deductible goodwill. The noncontrolling interest in Jungwoo-Mueller is $14.6 million. The purchase price allocation is provisional as of October 1, 2016 and subject to change upon completion of the final valuation of the long-lived assets and noncontrolling interest during the measurement period.

The valuations of certain businesses acquired in 2015 were finalized during 2016. During the second quarter of 2016, a deferred tax liability of $4.1 million was recorded that resulted from a basis difference in the long-lived assets acquired from Great Lakes Copper Ltd. This resulted in an increase in goodwill. There were no changes to the purchase price allocations for Turbotec Products, Inc. or Sherwood Valve LLC from the amounts presented in the Company's 2015 Annual Report on Form 10-K.

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Dispositions

On June 1, 2015, the Company sold certain assets. Simultaneously, the Company entered into a lease agreement with the purchaser of the assets for their continued use for a period of approximately 22 months (Lease Period).

The total sales price was $20.2 million, of which $5.0 million was received on June 1, 2015; the Company will receive $5.0 million on December 30, 2016 and the remaining $10.2 million will be received at the end of the Lease Period, March 31, 2017. This transaction resulted in a pre-tax gain of $15.4 million in the second quarter of 2015, or 17 cents per diluted share after tax. This gain was recognized in the Piping Systems segment.

Note 3 –Segment Information

During the first quarter of 2016, the Company made changes to its management reporting structure as a result of a change in the way the Chief Executive Officer, who serves as the Chief Operating Decision Maker, manages and evaluates the business, makes key operating decisions, and allocates resources. Previously, the Company had two reportable segments: Plumbing & Refrigeration and OEM. During the first quarter, the Company realigned its operating segments into three reportable segments: Piping Systems, Industrial Metals, and Climate. Management has recast certain prior period amounts to conform to the current period presentation. Each of the reportable segments is composed of certain operating segments that are aggregated primarily by the nature of products offered as follows:

Piping Systems

Piping Systems is composed of the following operating segments: Domestic Piping Systems Group, Canadian Operations, European Operations, Trading Group, Mueller-Xingrong (the Company's Chinese joint venture), and Jungwoo-Mueller (the Company's South Korean joint venture). The Domestic Piping Systems Group manufactures copper tube and fittings, plastic fittings, and line sets. These products are manufactured in the U.S. and sold in North America. Outside the U.S., the Canadian Operations manufacture copper tube and line sets and sell the products primarily in the U.S. and Canada, and the European Operations manufacture copper tube in the U.K. which is sold primarily in Europe. The Trading Group manufactures pipe nipples and imports and resells brass and plastic plumbing valves, malleable iron fittings, faucets, and plumbing specialty products in the U.S. and Mexico. Mueller-Xingrong manufactures engineered copper tube primarily for air-conditioning applications in China. Jungwoo-Mueller manufactures copper-based joining products that are sold worldwide. The Piping Systems segment's products are sold primarily to plumbing, refrigeration, and air-conditioning wholesalers, hardware wholesalers and co-ops, building product retailers, and air-conditioning original equipment manufacturers (OEMs).

During the third quarter of 2016, the segment recognized impairment charges of $3.0 million on fixed assets used for product development. During the second quarter of 2015, the segment recognized approximately $3.4 million of severance costs related to the reorganization of Yorkshire Copper Tube, acquired in 2014.

Industrial Metals

Industrial Metals is composed of the following operating segments: Brass Rod & Copper Bar Products, Impacts & Micro Gauge, and Brass Value-Added Products. These businesses manufacture brass rod, impact extrusions, and forgings, as well as a wide variety of end products including plumbing brass, automotive components, valves, fittings, and gas assemblies. These products are manufactured in the U.S. and sold primarily to OEMs in the U.S., many of which are in the industrial, construction, heating, ventilation, and air-conditioning, plumbing, and refrigeration markets.

Climate

Climate is composed of the following operating segments: Refrigeration Products, Fabricated Tube Products, Westermeyer, and Turbotec. These domestic businesses manufacture and fabricate valves and assemblies primarily for the heating, ventilation, air-conditioning, and refrigeration markets in the U.S.

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Summarized segment information is as follows:

	For the Quarter Ended October 1, 2016				
(In thousands)	Piping Systems	Industrial Metals	Climate	Corporate and Eliminations	Total
Net sales	$351,557	$131,350	$30,003	$ (6,326)	$506,584
Cost of goods sold	301,867	107,512	22,210	(6,921)	424,668
Depreciation and amortization	5,905	1,964	612	535	9,016
Selling, general, and administrative expense	16,647	3,125	2,357	10,284	32,413
Asset impairments	3,000	—	—	—	3,000
Operating income	24,138	18,749	4,824	(10,224)	37,487
Interest expense					(1,830)
Other income, net					120
Income before income taxes					$35,777

	For the Quarter Ended September 26, 2015				
(In thousands)	Piping Systems	Industrial Metals	Climate	Corporate and Eliminations	Total
Net sales	$367,892	$139,472	$28,494	$ (674)	$535,184
Cost of goods sold	320,571	125,146	22,160	(710)	467,167
Depreciation and amortization	5,430	2,154	608	557	8,749
Selling, general, and administrative expense	16,469	3,044	2,283	10,445	32,241
Operating income	25,422	9,128	3,443	(10,966)	27,027
Interest expense					(1,682)
Other income, net					164
Income before income taxes					$25,509

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Segment information (continued):

(In thousands)	For the Nine Months Ended October 1, 2016 Piping Systems	Industrial Metals	Climate	Corporate and Eliminations	Total
Net sales	$1,109,109	$393,608	$92,068	$ (11,321)	$1,583,464
Cost of goods sold	949,015	321,615	68,363	(11,623)	1,327,370
Depreciation and amortization	17,341	6,219	1,829	1,608	26,997
Selling, general, and administrative expense	51,497	9,989	7,336	33,885	102,707
Asset impairments	3,000	—	—	—	3,000
Operating income	88,256	55,785	14,540	(35,191)	123,390
Interest expense					(5,370)
Other income, net					880
Income before income taxes					$118,900

(In thousands)	For the Nine Months Ended September 26, 2015 Piping Systems	Industrial Metals	Climate	Corporate and Eliminations	Total
Net sales	$1,109,124	$435,736	$85,803	$ (2,644)	$1,628,019
Cost of goods sold	959,599	373,678	67,561	(2,472)	1,398,366
Depreciation and amortization	15,952	5,452	1,647	1,739	24,790
Selling, general, and administrative expense	50,021	8,044	6,637	33,220	97,922
Asset impairments	570	—	—	—	570
Gain on sale of assets	(15,376)	—	—	—	(15,376)
Severance	3,442	—	—	—	3,442
Operating income	94,916	48,562	9,958	(35,131)	118,305
Interest expense					(5,977)
Other income, net					534
Income before income taxes					$112,862

(In thousands)	October 1, 2016	December 26, 2015

Segment assets:		
Piping Systems	$855,036	$811,343
Industrial Metals	160,413	153,102
Climate	61,713	61,672
General Corporate	348,959	312,684
	$1,426,121	$1,338,801

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Note 4 – Inventories

(In thousands)	October 1, 2016	December 26, 2015
Raw materials and supplies	$63,915	$58,987
Work-in-process	37,131	25,161
Finished goods	157,128	161,410
Valuation reserves	(7,044)	(6,180)
Inventories	$251,130	$239,378

Note 5 – Derivative Instruments and Hedging Activities

The Company's earnings and cash flows are subject to fluctuations due to changes in commodity prices, foreign currency exchange rates, and interest rates. The Company uses derivative instruments such as commodity futures contracts, foreign currency forward contracts, and interest rate swaps to manage these exposures.

All derivatives are recognized in the Condensed Consolidated Balance Sheets at their fair value. On the date the derivative contract is entered into, it is either a) designated as (i) a hedge of a forecasted transaction or the variability of cash flow to be paid (cash flow hedge) or (ii) a hedge of the fair value of a recognized asset or liability (fair value hedge), or b) not designated in a hedge accounting relationship, even though the derivative contract was executed to mitigate an economic exposure, as the Company does not enter into derivative contracts for trading purposes (economic hedge). Changes in the fair value of a derivative instrument that is qualified, designated and highly effective as a cash flow hedge are recorded in accumulated other comprehensive income (AOCI), to the extent effective, until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

The Company documents all relationships between derivative instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value hedges to specific assets and liabilities in the Condensed Consolidated Balance Sheets and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the designated derivative instruments that are used in hedging transactions are highly effective in offsetting changes in cash flow or fair values of hedged items. When a derivative instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable of occurring, hedge accounting is discontinued prospectively in accordance with the derecognition criteria for hedge accounting.

Commodity Futures Contracts

Copper and brass represent the largest component of the Company's variable costs of production. The cost of these materials is subject to global market fluctuations caused by factors beyond the Company's control. The Company occasionally enters into forward fixed-price arrangements with certain customers; the risk of these arrangements is generally managed with commodity futures contracts. These futures contracts have been designated as cash flow hedges.

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At October 1, 2016, the Company held open futures contracts to purchase approximately $33.1 million of copper over the next 10 months related to fixed price sales orders. The fair value of those futures contracts was a $1.6 million net gain position, which was determined by obtaining quoted market prices (level 1 within the fair value hierarchy). In the next 12 months, the Company will reclassify into earnings realized gains or losses relating to cash flow hedges. At October 1, 2016, this amount was approximately $350 thousand of deferred net gains, net of tax.

The Company may also enter into futures contracts to protect the value of inventory against market fluctuations. At October 1, 2016, the Company held open futures contracts to sell approximately $6.1 million of copper over the next six months related to copper inventory. The fair value of those futures contracts was a $129 thousand net loss position, which was determined by obtaining quoted market prices (level 1 within the fair value hierarchy).

Interest Rate Swap

On February 20, 2013, the Company entered into a two-year forward-starting interest rate swap agreement with an effective date of January 12, 2015, and an underlying notional amount of $200.0 million, pursuant to which the Company receives variable interest payments based on one-month LIBOR and pays fixed interest at a rate of 1.4 percent. Based on the Company's current variable premium pricing on its Term Loan Facility, the all-in fixed rate on the effective date is 2.7 percent. The interest rate swap will mature on December 11, 2017, and is structured to offset the interest rate risk associated with the Company's floating-rate, LIBOR-based Term Loan Facility Agreement. The swap was designated and accounted for as a cash flow hedge from inception.

The fair value of the interest rate swap is estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rate and the expected cash flows at the current market interest rate using observable benchmarks for LIBOR forward rates at the end of the period (level 2 within the fair value hierarchy). Interest payable and receivable under the swap agreement is accrued and recorded as an adjustment to interest expense. The fair value of the interest rate swap was a $1.6 million net loss position at October 1, 2016, and there was $1.0 million of deferred losses, net of tax, included in AOCI that are expected to be reclassified into interest expense over the term of the hedged item.

The Company presents its derivative assets and liabilities in the Condensed Consolidated Balance Sheets on a net basis by counterparty. The following table summarizes the location and fair value of the derivative instruments and disaggregates the net derivative assets and liabilities into gross components on a contract-by-contract basis:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
(In thousands)	Balance Sheet Location	October 1, 2016	December 26, 2015	Balance Sheet Location	October 1, 2016	December 26, 2015
Hedging instrument:						
Commodity contracts - gains	Other current assets	$1,634	$ 60	Other current liabilities	$—	$238
Commodity contracts - losses	Other current assets	(23)	—	Other current liabilities	(129)	(1,864)
Interest rate swap	Other assets	—	—	Other liabilities	(1,601)	(1,692)
Total derivatives [1]		$1,611	$ 60		$(1,730)	$(3,318)

[1] Does not include the impact of cash collateral received from or provided to counterparties.

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The following tables summarize the effects of derivative instruments on the Company's Condensed Consolidated Statements of Income:

(In thousands)	Location	Quarter Ended October 1, 2016	Quarter Ended September 26, 2015	Nine Months Ended October 1, 2016	Nine Months Ended September 26, 2015
Fair value hedges:					
(Loss) gain on commodity contracts (qualifying)	Cost of goods sold	$(37)	$ 1,831	$(420)	$ 3,300
Gain (loss) on hedged item - Inventory	Cost of goods sold	31	(1,943)	382	(3,593)

(In thousands)	Location	Quarter Ended October 1, 2016	Quarter Ended September 26, 2015	Nine Months Ended October 1, 2016	Nine Months Ended September 26, 2015
Undesignated derivatives:					
Gain on commodity contracts (nonqualifying)	Cost of goods sold	$855	$ 1,143	$2,676	$ 2,422

The following tables summarize amounts recognized in and reclassified from AOCI during the period:

(In thousands)	Quarter Ended October 1, 2016 (Loss) Gain Recognized in AOCI (Effective Portion), Net of Tax	Classification Gains (Losses)	(Gain) Loss Reclassified from AOCI (Effective Portion), Net of Tax
Cash flow hedges:			
Commodity contracts	$(1,434)	Cost of goods sold	$ 814
Interest rate swap	457	Interest expense	58
Other	(32)	Other	(2)
Total	$(1,009)	Total	$ 870

(In thousands)	Quarter Ended September 26, 2015 (Loss) Gain Recognized in AOCI (Effective	Classification Gains (Losses)	(Gain) Loss Reclassified from AOCI (Effective Portion), Net

	Portion), Net of Tax		of Tax
Cash flow hedges:			
Commodity contracts	$ (2,046)	Cost of goods sold	$ 1,708
Interest rate swap	(632)	Interest expense	58
Other	(7)	Other	4
Total	$ (2,685)	Total	$ 1,770

	Nine Months Ended October 1, 2016		
(In thousands)	Gain (Loss) Recognized in AOCI (Effective Portion), Net of Tax	Classification Gains (Losses)	(Gain) Loss Reclassified from AOCI (Effective Portion), Net of Tax
Cash flow hedges:			
Commodity contracts	$ 1,903	Cost of goods sold	$ (477)
Interest rate swap	(128)	Interest expense	186
Other	(329)	Other	—
Total	$ 1,446	Total	$ (291)

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Derivative information (continued):

	Nine Months Ended September 26, 2015		
(In thousands)	(Loss) Gain Recognized in AOCI (Effective Portion), Net of Tax	Classification Gains (Losses)	(Gain) Loss Reclassified from AOCI (Effective Portion), Net of Tax
Cash flow hedges:			
Commodity contracts	$(2,931)	Cost of goods sold	$ 2,198
Interest rate swap	(1,397)	Interest expense	189
Other	(75)	Other	—
Total	$(4,403)	Total	$ 2,387

The Company enters into futures and forward contracts that closely match the terms of the underlying transactions. As a result, the ineffective portion of the open hedge contracts through October 1, 2016 was not material to the Condensed Consolidated Statements of Income.

The Company primarily enters into International Swaps and Derivatives Association master netting agreements with major financial institutions that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits the Company or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event. The Company does not offset fair value amounts for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral. At October 1, 2016 and December 26, 2015, the Company had recorded restricted cash in other current assets of $1.4 million and $2.6 million, respectively, as collateral related to open derivative contracts under the master netting arrangements.

Note 6 – Investment in Unconsolidated Affiliates

The Company owns a 50 percent interest in Tecumseh Products Holdings LLC (Joint Venture), an unconsolidated affiliate that acquired Tecumseh Products Company (Tecumseh) during the third quarter of 2015. The Company also owns a 50 percent interest in a second unconsolidated affiliate that provided financing to Tecumseh in conjunction with the acquisition. These investments are recorded using the equity method of accounting, as the Company can exercise significant influence but does not own a majority equity interest or otherwise control the respective entities. Under the equity method of accounting, these investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions.

The Company records its proportionate share of the investees' net income or loss one quarter in arrears as income (loss) from unconsolidated affiliates, net of tax, in the Condensed Consolidated Statements of Income.

The following tables present summarized financial information derived from the Company's equity method investees' combined consolidated financial statements, which are prepared in accordance with U.S. GAAP.

(In thousands)

	June 30, 2016	September 30, 2015
Current assets	$254,910	$251,389
Noncurrent assets	133,200	112,156
Current liabilities	155,406	178,784
Noncurrent liabilities	74,291	63,643

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	June 30, 2016	
(In thousands)	For the Quarter Ended	For the Nine Months Ended
Net sales	$146,700	$437,200
Gross profit	22,200	59,700
Net income	2,244	6,097

Included in the equity method investees' net income for the nine months ended June 30, 2016 is a gain of $17.1 million that resulted from the allocation of the purchase price, which was finalized during the quarter ended December 31, 2015. That gain was offset by restructuring and impairment charges of $5.3 million and net losses of $5.7 million.

Note 7 –Benefit Plans

The Company sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for certain of its employees. The components of net periodic benefit cost (income) are as follows:

	For the Quarter Ended		For the Nine Months Ended	
(In thousands)	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Pension benefits:				
Service cost	$180	$ 250	$540	$ 750
Interest cost	1,973	2,041	5,917	6,122
Expected return on plan assets	(2,466)	(2,654)	(7,398)	(7,963)
Amortization of net loss	760	685	2,280	2,055
Net periodic benefit cost	$447	$ 322	$1,339	$ 964
Other benefits:				
Service cost	$61	$ 90	$183	$ 270
Interest cost	153	193	458	579
Amortization of prior service (credit) cost	(224)	2	(672)	5
Amortization of net gain	(9)	(7)	(27)	(20)
Net periodic benefit (income) cost	$(19)	$ 278	$(58)	$ 834

Note 8 – Commitments and Contingencies

The Company is involved in certain litigation as a result of claims that arose in the ordinary course of business, which management believes will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. The Company may also realize the benefit of certain legal claims and litigation in the future; these gain contingencies are not recognized in the Condensed Consolidated Financial Statements.

Guarantees

Guarantees, in the form of letters of credit, are issued by the Company generally to assure the payment of insurance deductibles and certain retiree health benefits. The terms of the guarantees are generally one year but are renewable annually as required. These letters are primarily backed by the Company's revolving credit facility. The maximum payments that the Company could be required to make under its guarantees at October 1, 2016 were $7.0 million.

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Note 9 – Income Taxes

The Company's effective tax rate for the third quarter of 2016 was 30 percent compared with 20 percent for the same period last year. The items impacting the effective tax rate for the third quarter of 2016 were primarily attributable to reductions for the U.S. production activities deduction of $0.6 million and the effect of foreign tax rates lower than statutory tax rates of $1.0 million. These items were partially offset by the provision for state income taxes, net of the federal benefit, of $0.6 million.

For the third quarter of 2015, the difference between the effective tax rate and the amount computed using the U.S. federal statutory tax rate was primarily attributable to a permanent reduction to the Company's deferred tax liabilities of $4.2 million resulting from the acquisition of a foreign subsidiary and the U.S. production activities deduction of $0.8 million.

The Company's effective tax rate for the first nine months of 2016 was 33 percent compared with 32 percent for the same period last year. The items impacting the effective tax rate for the first nine months of 2016 were primarily attributable to reductions for the U.S. production activities deduction of $2.5 million and the effect of foreign tax rates lower than statutory tax rates of $3.5 million. These items were partially offset by the provision for state income taxes, net of the federal benefit, of $2.3 million.

For the first nine months of 2015, the difference between the effective tax rate and the amount computed using the U.S. federal statutory tax rate was primarily attributable to reductions to the Company's deferred tax liabilities of $4.2 million and the U.S. production activities deduction of $3.0 million. These items were partially offset by the provision for state income taxes, net of federal benefit, of $2.1 million.

The Company files a consolidated U.S. federal income tax return and numerous consolidated and separate-company income tax returns in many state, local, and foreign jurisdictions. The statute of limitations is open for the Company's federal tax return and most state income tax returns for 2013 and all subsequent years and is open for certain state and foreign returns for earlier tax years due to ongoing audits and differing statute periods. While the Company believes that it is adequately reserved for possible future audit adjustments, the final resolution of these examinations cannot be determined with certainty and could result in final settlements that differ from current estimates.

Note 10 – Accumulated Other Comprehensive Income

AOCI includes certain foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges, adjustments to pension and OPEB liabilities, unrealized gains and losses on marketable securities classified as available-for-sale, and other comprehensive income attributable to unconsolidated affiliates.

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The following table provides changes in AOCI by component, net of taxes and noncontrolling interests (amounts in parentheses indicate debits to AOCI):

(In thousands)	For the Nine Months Ended October 1, 2016 Cumulative Translation Adjustment	Unrealized (Losses) Gains on Derivatives	Minimum Pension/OPEB Liability Adjustment	Other	Total
Balance at December 26, 2015	$(24,773)	$ (2,009)	$ (28,429)	$221	$(54,990)
Other comprehensive income (loss) before reclassifications	(14,638)	1,446	2,258	6,627	(4,307)
Amounts reclassified from AOCI	—	(291)	1,187	—	896
Net current-period other comprehensive income (loss)	(14,638)	1,155	3,445	6,627	(3,411)
Balance at October 1, 2016	$(39,411)	$ (854)	$ (24,984)	$6,848	$(58,401)

(In thousands)	For the Nine Months Ended September 26, 2015 Cumulative Translation Adjustment	Unrealized (Losses) Gains on Derivatives	Minimum Pension/OPEB Liability Adjustment	Other	Total
Balance at December 27, 2014	$(7,076)	$ (953)	$ (35,164)	$270	$(42,923)
Other comprehensive income (loss) before reclassifications	(12,099)	(4,403)	510	(46)	(16,038)
Amounts reclassified from AOCI	—	2,387	1,490	—	3,877
Net current-period other comprehensive income (loss)	(12,099)	(2,016)	2,000	(46)	(12,161)
Balance at September 26, 2015	$(19,175)	$ (2,969)	$ (33,164)	$224	$(55,084)

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Reclassification adjustments out of AOCI were as follows: