Mueller Water Products, Inc.
Form 10-Q
May 10, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

Commission File Number 001-32892

MUELLER WATER PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

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

1200 Abernathy Road N.E.

Suite 1200

Atlanta, GA 30328

(Address of principal executive offices)

(770) 206-4200

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x No

There were 154,465,423 shares of Series A common stock of the registrant outstanding at April 30, 2010.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2010	September 30, 2009
	(in millions)	
Assets:		
Cash and cash equivalents	$ 104.6	$ 61.5
Receivables, net	182.9	216.3
Inventories	291.5	342.8
Deferred income taxes	28.4	30.8
Assets held for sale		13.9
Other current assets	60.1	80.8
Total current assets	667.5	746.1
Property, plant and equipment, net	274.0	296.4
Identifiable intangible assets, net	647.8	663.6
Other noncurrent assets	31.5	33.4
Total noncurrent assets	953.3	993.4
Total assets	$ 1,620.8	$ 1,739.5
Liabilities and stockholders equity:		
Current portion of long-term debt	$ 10.3	$ 11.7
Accounts payable	98.2	111.7
Other current liabilities	85.2	97.4
Total current liabilities	193.7	220.8
Long-term debt	684.6	728.5
Deferred income taxes	166.5	180.0
Other noncurrent liabilities	167.8	173.9
Total liabilities	1,212.6	1,303.2
Commitments and contingencies (Note 14)		
Series A common stock: 600,000,000 shares authorized; 154,457,656 shares and 153,790,887 shares outstanding at March 31, 2010 and September 30, 2009, respectively	1.5	1.5
Additional paid-in capital	1,598.8	1,599.0
Accumulated deficit	(1,112.7)	(1,078.3)
Accumulated other comprehensive loss	(79.4)	(85.9)
Total stockholders equity	408.2	436.3

Total liabilities and stockholders equity	$	1,620.8	$	1,739.5

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
	(in millions, except per share amounts)			
Net sales	$ 301.8	$ 322.2	$ 614.9	$ 689.9
Cost of sales	263.6	267.3	520.8	560.0
Gross profit	38.2	54.9	94.1	129.9
Operating expenses:				
Selling, general and administrative	50.6	60.0	105.8	122.3
Impairment		570.9		970.9
Restructuring	10.5	42.2	10.9	42.0
Total operating expenses	61.1	673.1	116.7	1,135.2
Loss from operations	(22.9)	(618.2)	(22.6)	(1,005.3)
Interest expense, net	14.8	16.6	31.6	33.9
Loss (gain) on early extinguishment of debt	0.5		0.5	(1.5)
Loss before income taxes	(38.2)	(634.8)	(54.7)	(1,037.7)
Income tax benefit	(14.5)	(68.0)	(20.3)	(70.9)
Net loss	$ (23.7)	$ (566.8)	$ (34.4)	$ (966.8)
Basic and diluted net loss per share	$ (0.15)	$ (4.90)	$ (0.22)	$ (8.37)
Basic and diluted weighted average shares outstanding	154.4	115.6	154.2	115.5
Dividends declared per share	$ 0.0175	$ 0.0175	$ 0.035	$ 0.035

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

SIX MONTHS ENDED MARCH 31, 2010

(UNAUDITED)

	Common stock	Additional paid-in capital	Accumu-lated deficit (in millions)	Accumulated other comprehensive loss	Total
Balance at September 30, 2009	$ 1.5	$ 1,599.0	$ (1,078.3)	$ (85.9)	$ 436.3
Net loss			(34.4)		(34.4)
Dividends declared		(5.5)			(5.5)
Stock-based compensation		4.7			4.7
Stock issued under stock compensation plans		0.6			0.6
Foreign currency translation				4.6	4.6
Minimum pension liability				1.9	1.9
Balance at March 31, 2010	$ 1.5	$ 1,598.8	$ (1,112.7)	$ (79.4)	$ 408.2

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended March 31, 2010	2009
	(in millions)	
Operating activities:		
Net loss	$ (34.4)	$ (966.8)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	26.6	31.5
Amortization	15.6	15.2
Impairment and restructuring	6.2	1,009.4
Gain (loss) on early extinguishment of debt	0.5	(1.5)
Stock-based compensation	4.7	7.1
Deferred income taxes	(14.4)	(60.2)
Gain on disposal of assets	(5.0)	(3.4)
Other, net	3.7	9.6
Changes in assets and liabilities:		
Receivables	20.8	95.2
Inventories	30.8	(10.2)
Other assets	22.0	(17.5)
Accounts payable and other liabilities	(32.8)	(110.6)
Net cash provided by (used in) operating activities	44.3	(2.2)
Investing activities:		
Capital expenditures	(14.6)	(17.6)
Acquisition of technology		(8.7)
Proceeds from sales of assets	60.2	4.2
Net cash provided by (used in) investing activities	45.6	(22.1)
Financing activities:		
Increase in outstanding checks	1.5	4.7
Debt paid and repurchased	(45.3)	(6.2)
Common stock issued	0.6	0.5
Dividends paid	(5.5)	(4.0)
Net cash used in financing activities	(48.7)	(5.0)
Effect of currency exchange rate changes on cash	1.9	(1.5)
Net change in cash and cash equivalents	43.1	(30.8)
Cash and cash equivalents at beginning of period	61.5	183.9
Cash and cash equivalents at end of period	$ 104.6	$ 153.1

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

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

Note 1. Organization and Basis of Presentation

Mueller Water Products, Inc., a Delaware corporation, together with its consolidated subsidiaries, operates in three business segments: Mueller Co., U.S. Pipe and Anvil. Mueller Co. manufactures valves for water and gas systems, including butterfly, iron gate, tapping, check, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants and a full range of metering products for the water infrastructure industry. U.S. Pipe manufactures a broad line of ductile iron pipe, joint restraint products, fittings and other ductile iron products. Anvil produces and sources a broad range of products including a variety of fittings, couplings, hangers, nipples and related pipe products. The Company, we, us or our refer to Mueller Water Products, Inc. and subsidiaries or their management. With regard to the Company s segments, we, us or our may also refer to the segment being discussed or its management.

On October 3, 2005, Walter Energy, Inc. (Walter Energy , formerly Walter Industries, Inc.) acquired all outstanding shares of a predecessor company comprising the then Mueller Co. and Anvil businesses (the Mueller Acquisition) and contributed them to its U.S. Pipe business to form the Company. We completed an initial public offering of our Series A common stock (NYSE: MWA) on June 1, 2006 and Walter Energy distributed all of our then-outstanding Series B common stock to its shareholders on December 14, 2006 (the Spin-off). On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock. On September 23, 2009, we completed a public offering of 37,122,000 shares of our Series A common stock.

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated. In our opinion, all normal and recurring adjustments that we consider necessary for a fair financial statement presentation have been made. The condensed consolidated balance sheet data at September 30, 2009 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Certain reclassifications have been made to previously reported amounts to conform to current period presentation.

Note 2. Goodwill and other identifiable intangible assets

Goodwill. As a result of a deterioration of U.S. equity markets during the three months ended December 31, 2008, we performed a preliminary assessment of goodwill at December 31, 2008 and concluded that the carrying values of our U.S. Pipe and Mueller Co. segments exceeded their estimated fair values. Accordingly, we reported estimated goodwill impairment losses of $400.0 million. During the three months ended March 31, 2009, our common stock began trading at prices significantly lower than prior periods. Our lower market capitalization prompted us to perform a second interim impairment assessment at March 31, 2009. This testing led to the conclusion that all of our remaining goodwill was fully impaired and during the three months ended March 31, 2009, we recorded additional goodwill impairment losses of $469.5 million. In performing these analyses, we relied upon both Level 2 data (publicly observable data such as market interest rates, our stock price, the stock prices of peer companies and the capital structures of peer companies) and Level 3 data (internal data such as our operating and cash flow projections).

The changes in the carrying amount of goodwill in the year ended September 30, 2009 are presented below.

	Mueller Co.	U.S. Pipe	Anvil	Total
		(in millions)		
Gross goodwill at October 1, 2008	$ 719.2	$ 59.5	$ 92.8	$ 871.5
Impairment recognized at December 31, 2008	(340.5)	(59.5)		(400.0)
Adjustment related to preacquisition tax contingencies at December 31, 2008	(0.7)		(0.1)	(0.8)
Impairment recognized at March 31, 2009	(376.8)		(92.7)	(469.5)
Adjustment related to preacquisition tax contingencies at March 31, 2009	(1.2)			(1.2)
Balances at September 30, 2009:				
Gross goodwill	717.3	59.5	92.7	869.5
Accumulated impairment	(717.3)	(59.5)	(92.7)	(869.5)
	$	$	$	$

Other identifiable intangible assets. In conjunction with the testing of goodwill for impairment, we also compared the estimated fair values of our identifiable other intangible assets to their respective carrying values and determined that the carrying amount of trade names at Mueller Co. had been impaired. At March 31, 2009, we recorded an impairment charge against these assets of $101.4 million. In performing this analysis, we relied upon both Level 2 data, most notably market interest rates and operating margins of peer companies, and Level 3 data, including our projections of Mueller Co. net sales and operating margins. Mueller Co. trade names had a remaining carrying value of $263.0 million at March 31, 2010.

We expense legal and other costs associated with the renewal or extension of our recognized intangible assets as incurred. Such expenses were not material in the three months or six months ended March 31, 2010 or 2009.

Note 3. Divestitures, Assets Held for Sale, and Acquisition

Anvil sold certain of the assets of Picoma, its former electrical fittings business, in November 2009 in exchange for cash and certain assets of Seminole Tubular Company that complement our existing mechanical pipe nipple business. These Picoma assets were classified as held for sale at September 30, 2009. We recorded a pre-tax gain of $1.6 million to selling, general and administrative expenses in connection with this transaction. The estimated values of assets classified as held for sale at September 30, 2009, the book values of the assets sold and the fair values of assets acquired during the six months ended March 31, 2010 are presented below.

	Sold/Acquired during the Six months ended March 31, 2010	September 30, 2009
	(in millions)	
Assets sold:		
Receivables	$ 5.0	$ 5.2
Inventories	4.4	4.7
Other current assets	0.3	
Property, plant, and equipment, net	2.5	2.7
Identifiable intangible assets	1.3	1.3
	$ 13.5	$ 13.9
Severance liability incurred	$ 0.6	
Assets acquired:		
Cash	$ 12.3	
Receivables	1.6	
Inventories	1.3	
Identifiable intangible assets	0.5	
	$ 15.7	

In January 2010, Anvil sold its Canadian wholesale distribution business for $46.6 million, subject to post-closing adjustments. This business had fiscal 2009 net sales of approximately $107 million and its income from operations was not material to the Company s income from operations. We recorded a pre-tax gain of $3.1 million to selling, general and administrative expenses in connection with this transaction and accrued $6.6 million for post-closing adjustments. We also entered into a 3 $^{1}/2$ year supply agreement with the buyer requiring the buyer to purchase at least a specified amount of products from Anvil at market rates. The book values of assets sold during the three months ended March 31, 2010 are presented below.

	Three months ended March 31, 2010 (in millions)
Receivables	$ 15.8
Inventories	23.3
Prepaid expenses and other current assets	0.3
Property, plant, and equipment, net	4.9
Identifiable intangible assets	0.6
Accounts payable and accrued liabilities	(8.0)

	$	36.9

Note 4. Restructuring Activities

Activity in accrued restructuring during the six months ended March 31, 2010 is presented below (in millions).

Balance at September 30, 2009	$	3.4
Provision charged against operations		10.9
Reductions credited against operations		(0.2)
Reductions credited against assets		(6.2)
Payments		(5.0)
Balance at March 31, 2010	$	2.9

In February 2010, we announced our intent to close U.S. Pipe s ductile iron pipe manufacturing plant in North Birmingham, Alabama by March 31, 2010, eliminating approximately 260 positions. Manufacturing at North Birmingham ceased during April 2010. In connection with this closure, we recorded a restructuring charge of $10.6 million during the three months ended March 31, 2010, consisting of $6.2 million of asset impairment charges and $4.4 million of employee-related and other charges. We expect to record net expenses of approximately $4 million to $5 million over the remainder of the year ending September 30, 2010.

Note 5. Income Taxes

At March 31, 2010 and September 30, 2009, the gross liabilities for unrecognized income tax benefits were $12.1 million and $16.2 million, respectively. The decrease in gross unrecognized tax benefits was primarily related to the effective settlement of certain state tax matters, including payments of $2.0 million.

We recognize interest related to uncertain income tax positions as interest expense and would recognize any penalties that may be incurred as selling, general and administrative expenses. At March 31, 2010 and September 30, 2009, we had $2.6 million and $2.7 million, respectively, of accrued interest related to uncertain tax positions. In the three months and six months ended March 31, 2010, we charged to expense $0.1 million and reversed to income $0.1 million, respectively, of tax-related accrued interest, primarily due to state tax settlements. We charged to expense $0.2 million and reversed to income $0.1 million of such tax-related interest in the three months and six months ended March 31, 2009, respectively.

Tax years dating back to 2003 generally remain open to examination by various U.S. and foreign taxing authorities.

The effective income tax rate applied to our pre-tax loss in the six months ended March 31, 2010 was 37.1%, which included state income tax benefits of 4.4% offset by the unfavorable effect of nondeductible expenses and miscellaneous other items totaling (2.3)%. Our effective income tax rate on the pre-tax loss before the impact from the goodwill impairment was 39% in the six months ended March 31, 2009.

Note 6. Borrowing Arrangements

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

	March 31, 2010	September 30, 2009
	(in millions)	
2007 Credit Agreement:		
Term Loan A	$ 54.6	$ 66.5
Term Loan B	218.7	252.0
7 3/8 % Senior Subordinated Notes	420.0	420.0
Other	1.6	1.7
	694.9	740.2
Less current portion	(10.3)	(11.7)
	$ 684.6	$ 728.5

2007 Credit Agreement. At March 31, 2010, our amended credit agreement (the 2007 Credit Agreement) consisted of a $200 million senior secured revolving credit facility (the Revolver), a $54.6 million term loan (Term Loan A) and a $218.7 million term loan (Term Loan B). The 2007 Credit Agreement contains customary covenants and events of default, including covenants that limit our ability to incur debt, pay dividends and make investments. Substantially all of our real and personal property has been pledged as collateral under the 2007 Credit Agreement.

Borrowings under the 2007 Credit Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 500 to 600 basis points depending on our consolidated senior secured first lien leverage ratio, as defined in the 2007 Credit Agreement. At March 31, 2010, the applicable margin was 500 basis points.

The Revolver terminates in May 2012, and there were no outstanding borrowings under the Revolver at March 31, 2010. For any unused borrowing capacity under the Revolver, we pay a commitment fee, which ranges from 50 to 75 basis points depending on our consolidated senior secured first lien leverage ratio. At March 31, 2010, the applicable fee was 50 basis points. The borrowing capacity under the Revolver is subject to the financial covenants and is reduced by outstanding letters of credit, which totaled $37.9 million at March 31, 2010.

Term Loan A matures in May 2012. The 2007 Credit Agreement requires quarterly payments of $1.8 million and payment of the remaining balance at maturity. At March 31, 2010, the weighted-average effective interest rate was 8.4%, including the margin and the effects of interest rate swap contracts. Based on information provided by an external source, we estimate the fair value of the outstanding borrowings for Term Loan A was $56.7 million at March 31, 2010.

Term Loan B matures in May 2014. The 2007 Credit Agreement requires quarterly payments of $0.7 million and payment of the remaining balance at maturity. At March 31, 2010, the weighted-average effective interest rate was 9.9%, including the margin and the effects of interest rate swap contracts. Based on information provided by an external source, we estimate the fair value of the outstanding borrowings for Term Loan B was $219.7 million at March 31, 2010.

7 3/8% Senior Subordinated Notes. The 7 3 /8% Senior Subordinated Notes (the Notes) mature in June 2017 and bear interest at 7.375%, paid semi-annually. At March 31, 2010, based on quoted market prices, the outstanding Notes had a fair value of $380.1 million.

The indenture securing the Notes contains customary covenants and events of default, including covenants that limit our ability to incur debt, pay dividends and make investments. Substantially all of our United States subsidiaries guarantee the Notes.

During the six months ended March 31, 2010, we prepaid $40.0 million of borrowings and incurred a loss on early extinguishment of debt of $0.5 million in connection with this prepayment representing writing off related deferred financing fees. During the six months ended March 31, 2009, we acquired $5.0 million in principal of the Notes in the open market for $3.4 million in cash. This resulted in a gain on early extinguishment of debt of $1.5 million after writing off related deferred financing fees of $0.1 million.

9

We were in compliance with all applicable debt covenants at March 31, 2010.

Note 7. Derivative Financial Instruments

We are exposed to certain risks relating to our ongoing business operations that we manage to some extent using derivative instruments. These are interest rate risk, commodity price risk and foreign exchange risk. We enter into interest rate swap contracts to manage interest rate risk associated with our variable-rate borrowings. We enter into natural gas swap contracts to manage the price risk associated with purchases of natural gas. We have entered into foreign currency forward exchange contracts to manage foreign currency exchange risk associated with our Canadian-dollar denominated intercompany loan. During the three months ended March 31, 2010, we settled our only outstanding foreign currency forward contract.

We have designated our interest rate swap contracts and natural gas swap contracts as cash flow hedges of our future interest payments and purchases of natural gas, respectively. As a result, the effective portion of the gain or loss on these contracts is reported as a component of other comprehensive loss and reclassified into earnings in the same periods during which the hedged transactions affect earnings. Gains and losses on those contracts representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Interest Rate Swap Contracts. Our interest rate swap contracts result in payments of interest at fixed rates ranging from 3.4% to 5.0% and expire at various dates through September 2012.

During the three months ended March 31, 2010, we recorded a non-cash net credit to interest expense and a pre-tax debit to accumulated other comprehensive loss of $4.7 million related to interest rate swap contracts that had been terminated during the three months ended September 30, 2009. This amount had been charged to interest expense during the year ended September 30, 2009. It should have been amortized to interest expense over the original term of the terminated swap contracts, which would have matured at various dates through May 2012. At March 31, 2010, the unamortized portion remaining in accumulated other comprehensive loss was $2.7 million, net of tax.

Our outstanding interest rate swap contracts at March 31, 2010 and September 30, 2009 are presented below. We also have a $100.0 million total notional amount forward-starting interest rate swap contract that will begin at a future date.

Rate benchmark	Hedged loan principal March 31, 2010	Hedged loan principal September 30, 2009
	(in millions)	
90-day LIBOR	$ 225.0	$ 275.0

The effects of our interest rate swap contracts on the consolidated financial statements are presented below.

	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
	(in millions)			
Gain (loss) recognized in other comprehensive loss	$ (0.8)	$ 1.1	$ 0.3	$ (9.5)
Loss reclassified from accumulated other comprehensive loss into income	(1.7)	(2.8)	(4.7)	(3.9)

Natural Gas Swap Contracts. Our natural gas swap contracts result in fixed natural gas purchase prices ranging from $5.60 per MMBtu to $6.05 per MMBtu through September 2010. Our outstanding natural gas swap contracts at March 31, 2010 and September 30, 2009 are presented below.

	Hedged MMBtu	
Rate benchmark	**March 31, 2010**	**September 30, 2009**
NYMEX natural gas	236,000	434,000

The effects of our natural gas swap contracts on the consolidated financial statements are presented below.

	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
	(in millions)			
Gain (loss) recognized in other comprehensive loss	$ (0.2)	$ (0.4)	$ (0.2)	$ (0.8)
Gain (loss) reclassified from accumulated other comprehensive loss into income	0.1	(0.8)	0.2	(1.2)
Ineffectiveness gain (loss) recognized in income	(0.1)	0.1	(0.4)	(0.2)

Foreign Currency Forward Contracts. We settled our only outstanding foreign currency forward contract during the three months ended March 31, 2010 with a cash payment of $1.7 million. Our outstanding foreign currency forward contracts at March 31, 2010 and September 30, 2009 are presented below.

	Hedged Canadian dollars	
Rate benchmark	**March 31, 2010**	**September 30, 2009**
	(in millions)	
Canadian dollar		28.0

Gains and losses on our foreign currency forward contracts are included in selling, general, and administrative expenses, where they offset transaction losses and gains recorded in connection with an intercompany loan. The effects of our foreign currency forward contracts on the consolidated financial statements are presented below.

	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
	(in millions)			
Gain (loss) recognized in income	$ (0.4)	$ 0.7	$ (1.0)	$ 4.0

Our derivative contracts were recorded at fair values calculated using publicly observable data such as interest rates and natural gas prices. The fair values of our derivative contracts are presented below.

	March 31, 2010		September 30, 2009	
	Balance sheet location	Fair value	Balance sheet location	Fair value
		(in millions)		
Liability derivatives:				
Derivatives designated as hedging instruments:				
Interest rate swap contracts	Other noncurrent liabilities	$ 13.9	Other noncurrent liabilities	$ 18.8
Natural gas swap contracts	Other current liabilities	0.4	Other current liabilities	
		14.3		18.8
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Other current liabilities		Other noncurrent liabilities	0.7
		$ 14.3		$ 19.5

Note 8. Retirement Plans

The components of net periodic benefit cost for defined benefit pension plans and other postretirement benefit plans are as follows.

	Defined benefit pension plans			
	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
	(in millions)			
Components of net periodic benefit cost:				
Service cost	$ 1.1	$ 1.0	$ 2.2	$ 2.0
Interest cost	5.2	5.8	10.4	11.6
Expected return on plan assets	(5.5)	(5.4)	(11.0)	(10.8)
Amortization of prior service cost	0.2	0.2	0.4	0.4
Amortization of net loss	2.4	0.8	4.8	1.6
Loss due to settlement or curtailment	2.6		2.6	
	$ 6.0	$ 2.4	$ 9.4	$ 4.8

	Other postretirement benefit plans			
	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
	(in millions)			
Components of net periodic benefit gain:				
Service cost	$ 0.1	$	$ 0.1	$ 0.1
Interest cost	0.1	0.2	0.2	0.3
Amortization of prior service gain	(0.8)	(0.9)	(1.5)	(1.7)
Amortization of net gain	(0.3)	(0.4)	(0.6)	(0.8)
Gain due to settlement or curtailment	(0.6)		(0.6)	
	$ (1.5)	$ (1.1)	$ (2.4)	$ (2.1)

The amortization of unrecognized prior service cost or gain and of actuarial net losses or gains, net of tax, are recorded as components of accumulated other comprehensive loss. We recorded a decrease to accumulated other comprehensive loss of $1.9 million during the six months ended March 31, 2010 and an increase to accumulated other comprehensive loss of $0.2 million during the six months ended March 31, 2009.

In February 2010, we announced our intent to close U.S. Pipe s North Birmingham plant. In connection with this closure, we recorded pension curtailment expense of $2.6 million and an other postretirement benefit plan curtailment gain of $0.6 million, which were included in restructuring charges for the three months ended March 31, 2010. We expect to record a gain of $1.3 million related to the curtailment of other postretirement benefit plans over the remainder of the year ending September 30, 2010.

During the six months ended March 31, 2010, we contributed $5.1 million to our defined benefit pension plans. We estimate we will contribute an additional $18 million to $20 million to our pension plans during the year ending September 30, 2010. We also expect to contribute $0.7 million to our other postretirement benefit plans in the year ending September 30, 2010.

Note 9. Stock-based Compensation Plans

We granted equity awards under our Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan and Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan during the six months ended March 31, 2010 as follows.

	Number of instruments	Weighted average fair value per instrument	Total fair value
	(in millions, except per instrument value)		
Three months ended December 31, 2009:			
Restricted stock units	0.8	$ 5.05	$ 4.1
Non-qualified stock options	1.3	1.70	2.3
Employee stock purchase plan instruments	0.1	1.51	0.1
Three months ended March 31, 2010:			
Restricted stock units	0.1	4.71	$ 0.6
Non-qualified stock options	0.3	1.62	0.3
Employee stock purchase plan instruments		1.05	0.1
	2.6		$ 7.5

We recorded stock-based compensation expense of $2.3 million and $4.7 million in the three months and six months ended March 31, 2010, respectively. At March 31, 2010, there was approximately $10.3 million of unrecognized compensation expense related to stock awards.

We recorded net losses in the three months and six months ended March 31, 2010 and 2009. Because the effect of including normally dilutive securities in the earnings per share calculation would have been antidilutive, all stock-based compensation instruments were excluded from the calculation of diluted net loss per share for the three months and six months ended March 31, 2010 and 2009.

Note 10. Supplemental Balance Sheet Information

Selected supplemental balance sheet information is presented below.

	March 31, 2010	September 30, 2009
	(in millions)	
Inventories:		
Purchased materials and manufactured parts	$ 49.1	$ 56.7
Work in process	76.3	83.8
Finished goods	166.1	202.3
	$ 291.5	$ 342.8
Other current assets:		
Income taxes	$ 22.1	$ 42.0
Maintenance and repair tooling	30.6	31.3
Other	7.4	7.5
	$ 60.1	$ 80.8
Property, plant and equipment, net:		
Land	$ 24.4	$ 24.9
Buildings	93.5	97.9
Machinery and equipment	610.0	633.8
Construction in progress	11.2	17.2
	739.1	773.8
Accumulated depreciation	(465.1)	(477.4)
	$ 274.0	$ 296.4
Other current liabilities:		
Compensation and benefits	$ 31.5	$ 40.5
Cash discounts and rebates	9.3	14.2
Taxes other than income taxes	6.1	10.1
Interest	13.3	14.7
Warranty	2.9	4.0
Severance	0.2	0.2
Restructuring	2.9	3.4
Income taxes	1.4	0.3
Environmental	0.3	0.5
Disposition-related post-closing adjustments	6.6	
Other	10.7	9.5
	$ 85.2	$ 97.4

Note 11. Comprehensive Loss

Comprehensive losses in the three months and six months ended March 31 are presented below.

	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
	(in millions)			
Net loss	$ (23.7)	$ (566.8)	$ (34.4)	$ (966.8)
Adjustments:				
Effect of net gain (loss) on derivatives	3.0	1.0	4.7	(17.0)
Income tax effects	(1.2)	(0.3)	(1.8)	6.7
Deferral of interest expense on terminated swap contracts	(4.7)		(4.7)	
Income tax effects	1.8		1.8	
	(1.1)	0.7		(10.3)
Foreign currency translation	2.1	(1.4)	4.6	(12.5)
Minimum pension liability	1.6	(0.2)	3.2	(0.3)
Income tax effects	(0.6)	0.1	(1.3)	0.1
	1.0	(0.1)	1.9	(0.2)
	$ (21.7)	$ (567.6)	$ (27.9)	$ (989.8)

Accumulated other comprehensive loss is presented below.

	March 31, 2010	September 30, 2009
	(in millions)	
Net unrealized loss on derivatives	$ (11.4)	$ (11.4)
Foreign currency translation	8.6	4.0
Minimum pension liability	(76.6)	(78.5)
	$ (79.4)	$ (85.9)

Note 12. Non-cash Transactions

In connection with the Picoma transaction described in Note 3, we acquired receivables with a fair value of $1.6 million, inventories with a fair value of $1.3 million and identifiable intangible assets with a fair value of $0.5 million in a non-cash transaction.

During the three months ended December 31, 2008, we resolved certain tax matters relating to Mueller Co. and Anvil involving periods prior to the Mueller Acquisition. The resolution of these matters had the effect of decreasing goodwill and accrued liabilities by $0.8 million each.

Note 13. Segment Information

Segment assets consist primarily of receivables, inventories, property, plant and equipment and intangible assets. Summarized financial information for our segments is presented below.

	Three months ended March 31, 2010	Three months ended March 31, 2009	Six months ended March 31, 2010	Six months ended March 31, 2009
	(in millions)			
Net sales, excluding intersegment sales:				
Mueller Co.	$ 141.2	$ 114.8	$ 274.5	$ 234.4
U.S. Pipe	83.0	93.2	162.7	208.9
Anvil	77.6	114.2	177.7	246.6
	$ 301.8	$ 322.2	$ 614.9	$ 689.9
Intersegment sales:				
Mueller Co.	$ 3.5	$ 4.3	$ 7.4	$ 8.6
U.S. Pipe	0.3	0.5	0.7	0.8
Anvil	0.1	0.1	0.3	0.3
	$ 3.9	$ 4.9	$ 8.4	$ 9.7
Depreciation and amortization:				
Mueller Co.	$ 12.5	$ 13.2	$ 24.9	$ 25.5
U.S. Pipe	5.0	6.2	9.4	12.3
Anvil	3.7	4.4	7.6	8.6
Corporate	0.2	0.1	0.3	0.3
	$ 21.4	$ 23.9	$ 42.2	$ 46.7
Impairment and restructuring:				
Mueller Co.	$	$ 478.9	$ 0.1	$ 819.4
U.S. Pipe	10.4	40.1	10.7	99.4
Anvil	0.1	93.9	0.1	93.9
Corporate		0.2		0.2
	$ 10.5	$ 613.1	$ 10.9	$ 1,012.9
Income (loss) from operations:				
Mueller Co.	$ 9.7	$ (476.3)	$ 25.6	$ (808.3)
U.S. Pipe	(30.0)	(51.0)	(42.2)	(116.8)
Anvil	5.9	(81.8)	10.4	(60.5)
Corporate	(8.5)	(9.1)	(16.4)	(19.7)
	$ (22.9)	$ (618.2)	$ (22.6)	$ (1,005.3)
Capital expenditures:				
Mueller Co.	$ 3.4	$ 2.8	$ 7.1	$ 6.1
U.S. Pipe	1.3	2.1	5.3	5.5
Anvil	1.1	2.5	2.1	5.7
Corporate	0.1	0.2	0.1	0.3

	$ 5.9	$ 7.6	$ 14.6	$ 17.6

17

Note 14. Commitments and Contingencies

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. We accrue expenses relating to these matters when a loss is probable and the amount is reasonably estimable. We expense administrative and defense costs related to these matters as incurred. The effect of the outcome of these matters on our future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. Other than the litigation described below, we do not believe that any of our outstanding litigation would have a material adverse effect on our businesses, operations or prospects.

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

In September 1987, we implemented an Administrative Consent Order (ACO) for our Burlington plant that was required under the New Jersey Environmental Cleanup Responsibility Act (now known as the Industrial Site Recovery Act). The ACO required soil and ground water cleanup, and we have completed, and have received final approval on, the soil cleanup required by the ACO. We are continuing to monitor ground water at this site. Further remediation could be required. Long-term ground water monitoring is also required to verify natural attenuation. We do not know how long ground water monitoring will be required and do not believe monitoring or further remediation costs will have a material adverse effect on our consolidated financial condition or results of operations.

In June 2003, Solutia Inc. and Pharmacia Corporation (collectively Solutia) filed suit against U.S. Pipe and a number of co-defendant foundry-related companies in the U.S. District Court for the Northern District of Alabama for contribution and cost recovery allegedly incurred and to be incurred by Solutia in performing remediation of polychlorinated biphenyls (PCBs) and heavy metals in Anniston, Alabama, pursuant to a partial consent decree with the United States Environmental Protection Agency (EPA). U.S. Pipe and certain co-defendants subsequently reached a settlement with the EPA concerning their liability for certain contamination in and around Anniston, which was memorialized in an Administrative Agreement and Order on Consent (AOC) that became effective in January 2006. U.S. Pipe has reached a settlement agreement whereby Phelps Dodge Industries, Inc., a co-defendant and co-respondent on the AOC, has assumed U.S. Pipe s obligation to perform the work required under the AOC.

U.S. Pipe and the other settling defendants contend that the legal effect of the AOC extinguishes Solutia s claims and they filed a motion for summary judgment to that effect. Discovery in this matter had been stayed while the motion for summary judgment was pending. In June 2008, the court issued a summary judgment order, holding that plaintiffs claims for contribution are barred by the AOC but giving plaintiffs the right to seek to recover cleanup costs they voluntarily incurred. The court granted a motion for immediate appeal to the Eleventh Circuit Court of Appeals, but the Eleventh Circuit declined to take the appeal. The parties engaged in fact discovery in 2009, and U.S. Pipe has moved for reconsideration of the June 2008 summary judgment order that permitted plaintiffs to proceed with their claims to seek recovery of clean up costs under Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act. We currently have no basis to form a view with respect to the probability or amount of liability in this matter.

U.S. Pipe and a number of co-defendant foundry-related companies were named in a putative civil class action case originally filed in April 2005 in the Circuit Court of Calhoun County, Alabama, and removed by defendants to the U.S. District Court for the Northern District of Alabama under the Class Action Fairness Act. The putative plaintiffs in the case filed an amended complaint with the U.S. District Court in December 2006. The amended complaint alleged state law tort claims (negligence, failure to warn, wantonness, nuisance, trespass and outrage) arising from creation and disposal of foundry sand alleged to contain harmful levels of PCBs and other toxins, including arsenic, cadmium, chromium, lead and zinc. The plaintiffs originally sought damages for real and personal property and for other unspecified personal injury. In June 2007, a motion to dismiss was granted to U.S. Pipe and certain co-defendants as to the claims for negligence, failure to warn, nuisance, trespass and outrage. The remainder of the complaint was dismissed with leave to file an amended complaint. On July 6, 2007, plaintiffs filed a second amended complaint, which dismissed prior claims relating to U.S. Pipe s former facility located at 2101 West 10th Street in

Anniston, Alabama and no longer alleges personal injury claims. Plaintiffs filed a third amended complaint on July 27, 2007. U.S. Pipe and the other defendants have moved to dismiss the third amended complaint. In September 2008, the court issued an order on the motion, dismissing the claims for wantonness and permitting the plaintiffs to move forward with their claims of nuisance, trespass and negligence. Management believes that numerous procedural and substantive defenses are available. We currently have no basis to form a view with respect to the amount of liability in this matter.

In the acquisition agreement pursuant to which a predecessor to Tyco International Ltd. (Tyco) sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify Mueller Co., Anvil and their affiliates, among other things, for all Excluded Liabilities . Excluded Liabilities include, among other things, substantially all liabilities of Mueller Co., Anvil and their affiliates prior to August 1999. The indemnity survives indefinitely and is not subject to any deductibles or caps. However, we may be responsible for these liabilities in the event that Tyco ever becomes financially unable to or otherwise fails to comply with, the terms of the indemnity. In addition, Tyco s indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. In June 2007, Tyco was separated into three separate, publicly traded companies. Should the entity or entities that assume Tyco s obligations under the acquisition agreement ever become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

Some of our subsidiaries have been named as defendants in asbestos-related lawsuits. We do not believe these lawsuits, either individually or in the aggregate, are material to our consolidated financial position or results of operations.

Other Litigation. We are parties to a number of other lawsuits arising in the ordinary course of our businesses, including product liability cases for products manufactured by us and by third parties. The effect of the outcome of these matters on our future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of such other litigation is not likely to have a materially adverse effect on our consolidated financial statements.

Walter Energy-related Income Taxes. Each member of a consolidated group for federal income tax purposes is severally liable for the federal income tax liability of each other member of the consolidated group for any year in which it is a member of the group at any time during such year. Each member of the Walter Energy consolidated group, which included us through December 14, 2006, is also jointly and severally liable for pension and benefit funding and termination liabilities of other group members, as well as certain benefit plan taxes. Accordingly, we could be liable under such provisions in the event any such liability is incurred, and not discharged, by any other member of the Walter Energy consolidated group for any period during which we were included in the Walter Energy consolidated group.

A dispute exists with regard to federal income taxes for fiscal years 1980 through 1994 allegedly owed by the Walter Energy consolidated group, which included U.S. Pipe during these periods. According to Walter Energy s last available public filing on the matter, Walter Energy s management estimated that the amount of tax claimed by the Internal Revenue Service (IRS) was approximately $34.0 million for issues currently in dispute in bankruptcy court for matters unrelated to us. This amount is subject to interest and penalties. Of the $34.0 million in claimed tax, $21.0 million represents issues in which the IRS is not challenging the deductibility of the particular expense but only whether such expense is deductible in a particular year. Walter Energy s management believes that Walter Energy s financial exposure should be limited to interest and possible penalties and the amount of any tax claimed will be offset by deductions in other years.

In addition, the IRS previously issued a Notice of Proposed Deficiency assessing additional tax of $82.2 million for the fiscal years ended May 31, 2000, December 31, 2000 and December 31, 2001. The unresolved issues relate primarily to Walter Energy s method of recognizing revenue on the sale of homes and related interest on the installment notes receivable. The items at issue relate primarily to the timing of revenue recognition and consequently, should the IRS prevail on its positions, Walter Energy s financial exposure should be limited to interest and penalties. As a matter of law, the Company is jointly and severally liable for any final tax determination, which means that in the event Walter Energy is unable to pay any amounts owed, we would be liable. Walter Energy has disclosed that it believes its filing positions have substantial merit and that it intends to defend vigorously any claims asserted.

Walter Energy effectively controlled all of our tax decisions for periods during which we were a member of the Walter Energy consolidated group for federal income tax purposes and certain combined, consolidated or unitary state and local income tax groups. Under the terms of the income tax allocation agreement between us and Walter Energy dated May 26, 2006, we generally compute our tax liability on a stand-alone basis, but Walter Energy has sole authority to respond to and conduct all tax proceedings (including tax audits) relating to our federal income and combined state returns, to file all such returns on our behalf and to determine the amount of our liability to (or entitlement to payment from) Walter Energy for such previous periods. This arrangement may result in conflicts between Walter Energy and us. The Spin-off was intended to qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code of 1986, as amended. In addition, the tax allocation agreement provides that if the Spin-off is determined not to be tax-free pursuant to Section 355 of the Internal Revenue Code of 1986, as amended, we generally will be responsible for any taxes incurred by Walter Energy or its shareholders if such taxes result from certain of our actions or omissions and for a percentage of any such taxes that are not a result of our actions or omissions or Walter Energy s actions or omissions or taxes based upon our market value relative to Walter Energy s market value. Additionally, to the extent that Walter Energy was unable to pay taxes, if any, attributable to the Spin-off and for which it is responsible under the tax allocation agreement, we could be liable for those taxes as a result of being a member of the Walter Energy consolidated group for the year in which the Spin-off occurred.

In accordance with the income tax allocation agreement, Walter Energy used certain tax assets of a predecessor to the Company in its calendar 2006 tax return for which payment to us is required. The income tax allocation agreement only requires Walter Energy to make the payment upon realization of the tax benefit by receiving a refund or otherwise offsetting taxes due. Walter Energy currently owes us $10.9 million that is payable pending completion of an IRS audit of Walter Energy s 2006 tax year and the related refund of tax from that year. We do not expect payment for at least a year from March 31, 2010.

Note 15. Subsequent Events

On April 28, 2010, we declared a dividend of $0.0175 per share on our Series A common stock, payable on May 20, 2010 to stockholders of record at the close of business on May 10, 2010.

Note 16. Consolidating Guarantor and Non-Guarantor Financial Information

The following information is included as a result of the guarantee by certain of our wholly-owned U.S. subsidiaries, both direct and indirect, (the Guarantor Companies) of the Notes. None of our other subsidiaries guarantee the Notes. Each of the guarantees is joint and several and full and unconditional. The Guarantor Companies at March 31, 2010 are presented below.

Name	State of incorporation or organization
Anvil 1, LLC	Delaware
Anvil 2, LLC	Delaware
Anvil International, LP	Delaware
AnvilStar, LLC	Delaware
Fast Fabricators, LLC	Delaware
Henry Pratt Company, LLC	Delaware
Henry Pratt International, LLC	Delaware
Hersey Meters Co., LLC	Delaware
Hunt Industries, LLC	Delaware
Hydro Gate, LLC	Delaware
J.B. Smith Mfg. Co., LLC	Delaware
James Jones Company, LLC	Delaware
MCO 1, LLC	Alabama
MCO 2, LLC	Alabama
Milliken Valve, LLC	Delaware
Mueller Co. Ltd.	Alabama
Mueller Financial Services, LLC	Delaware
Mueller Group, LLC	Delaware
Mueller Group Co-Issuer, Inc.	Delaware
Mueller International, Inc.	Delaware
Mueller International, L.L.C.	Delaware
Mueller International Finance, Inc.	Delaware
Mueller International Finance, L.L.C.	Delaware
Mueller Service California, Inc.	Delaware
Mueller Service Co., LLC	Delaware
Mueller Technologies, LLC	Delaware
United States Pipe and Foundry Company, LLC	Alabama
U.S. Pipe Valve & Hydrant, LLC	Delaware

Mueller Water Products, Inc. and Subsidiaries

Consolidating Balance Sheet

March 31, 2010

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Assets:					
Cash and cash equivalents	$ 51.3	$ 0.2	$ 53.1	$	$ 104.6
Receivables, net	0.2	169.1	13.6		182.9
Inventories		271.5	20.0		291.5
Deferred income taxes	28.0		0.4		28.4
Assets held for sale					
Other current assets	25.2	33.7	1.2		60.1
Total current assets	104.7	474.5	88.3		667.5
Property, plant and equipment	2.3	261.2	10.5		274.0
Goodwill					
Identifiable intangible assets, net		647.8			647.8
Other noncurrent assets	25.6	3.7	2.2		31.5
Investment in subsidiaries	(49.1)	20.9		28.2	
Total noncurrent assets	(21.2)	933.6	12.7	28.2	953.3
Total assets	$ 83.5	$ 1,408.1	$ 101.0	$ 28.2	$ 1,620.8
Liabilities and equity:					
Current portion of debt	$ 9.7	$ 0.6	$	$	$ 10.3
Accounts payable	6.6	87.7	3.9		98.2
Other current liabilities	24.2	52.7	8.3		85.2
Total current liabilities	40.5	141.0	12.2		193.7
Intercompany accounts	(1,242.9)	1,176.1	66.8		
Long-term debt	683.9	0.7			684.6
Deferred income taxes	166.0		0.5		166.5
Other noncurrent liabilities	27.8	139.4	0.6		167.8
Total liabilities	(324.7)	1,457.2	80.1		1,212.6
Equity	408.2	(49.1)	20.9	28.2	408.2
Total liabilities and equity	$ 83.5	$ 1,408.1	$ 101.0	$ 28.2	$ 1,620.8

Mueller Water Products, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Assets:					
Cash and cash equivalents	$ 41.7	$ (0.2)	$ 20.0	$	$ 61.5
Receivables, net		183.1	33.2		216.3
Inventories		295.7	47.1		342.8
Deferred income taxes	30.4		0.4		30.8
Assets held for sale		13.9			13.9
Other current assets	44.7	33.9	2.2		80.8
Total current assets	116.8	526.4	102.9		746.1
Property, plant and equipment	2.4	278.5	15.5		296.4
Identifiable intangible assets, net		663.6			663.6
Other noncurrent assets	25.3	6.2	1.9		33.4
Investment in subsidiaries	(90.6)	21.7		68.9	
Total noncurrent assets	(62.9)	970.0	17.4	68.9	993.4
Total assets	$ 53.9	$ 1,496.4	$ 120.3	$ 68.9	$ 1,739.5
Liabilities and equity:					
Current portion of debt	$ 11.1	$ 0.6	$	$	$ 11.7
Accounts payable	4.7	95.2	11.8		111.7
Other current liabilities	29.5	62.3	5.6		97.4
Total current liabilities	45.3	158.1	17.4		220.8
Intercompany accounts	(1,367.5)	1,287.3	80.2		
Long-term debt	727.7	0.8			728.5
Deferred income taxes	179.4		0.6		180.0
Other noncurrent liabilities	32.7	140.8	0.4		173.9
Total liabilities	(382.4)	1,587.0	98.6		1,303.2
Equity	436.3	(90.6)	21.7	68.9	436.3
Total liabilities and equity	$ 53.9	$ 1,496.4	$ 120.3	$ 68.9	$ 1,739.5

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Operations

Three Months Ended March 31, 2010

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$	$ 279.6	$ 22.2	$	$ 301.8
Cost of sales		244.0	19.6		263.6
Gross profit		35.6	2.6		38.2
Operating expenses:					
Selling, general and administrative	8.5	44.0	(1.9)		50.6
Restructuring		10.3	0.2		10.5
Total operating expenses	8.5	54.3	(1.7)		61.1
Income (loss) from operations	(8.5)	(18.7)	4.3		(22.9)
Interest expense, net	14.7	0.1			14.8
Loss on early extinguishment of debt	0.5				0.5
Income (loss) before income taxes	(23.7)	(18.8)	4.3		(38.2)
Income tax expense (benefit)	(8.9)	(7.1)	1.5		(14.5)
Equity in income (loss) of subsidiaries	(8.9)	2.8		6.1	
Net income (loss)	$ (23.7)	$ (8.9)	$ 2.8	$ 6.1	$ (23.7)

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Operations

Six Months Ended March 31, 2010

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$	$ 538.2	$ 76.7	$	$ 614.9
Cost of sales		453.9	66.9		520.8
Gross profit		84.3	9.8		94.1
Operating expenses:					
Selling, general and administrative	16.3	84.7	4.8		105.8
Restructuring		10.7	0.2		10.9
Total operating expenses	16.3	95.4	5.0		116.7
Income (loss) from operations	(16.3)	(11.1)	4.8		(22.6)
Interest expense, net	31.5	0.1			31.6
Loss on early extinguishment of debt	0.5				0.5
Income (loss) before income taxes	(48.3)	(11.2)	4.8		(54.7)
Income tax expense (benefit)	(17.7)	(4.3)	1.7		(20.3)
Equity in income (loss) of subsidiaries	(3.8)	3.1		0.7	
Net income (loss)	$ (34.4)	$ (3.8)	$ 3.1	$ 0.7	$ (34.4)

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Operations

Three Months Ended March 31, 2009

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$	$ 276.0	$ 46.2	$	$ 322.2
Cost of sales		227.0	40.3		267.3
Gross profit		49.0	5.9		54.9
Operating expenses:					
Selling, general and administrative	8.8	44.1	7.1		60.0
Goodwill impairment		570.9			570.9
Restructuring	0.2	42.0			42.2
Total operating expenses	9.0	657.0	7.1		673.1
Loss from operations	(9.0)	(608.0)	(1.2)		(618.2)
Interest expense, net	16.6				16.6
Loss before income taxes	(25.6)	(608.0)	(1.2)		(634.8)
Income tax benefit	(8.2)	(59.4)	(0.4)		(68.0)
Equity in loss of subsidiaries	(549.4)	(0.8)		550.2	
Net loss	$ (566.8)	$ (549.4)	$ (0.8)	$ 550.2	$ (566.8)

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Operations

Six Months Ended March 31, 2009

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Net sales	$	$ 584.1	$ 105.8	$	$ 689.9
Cost of sales		468.0	92.0		560.0
Gross profit		116.1	13.8		129.9
Operating expenses:					
Selling, general and administrative	19.0	90.9	12.4		122.3
Goodwill impairment		970.9			970.9
Restructuring	0.2	41.8			42.0
Total operating expenses	19.2	1,103.6	12.4		1,135.2
Income (loss) from operations	(19.2)	(987.5)	1.4		(1,005.3)
Interest expense, net	33.9				33.9
Gain on early extinguishment of debt	(1.5)				(1.5)
Income (loss) before income taxes	(51.6)	(987.5)	1.4		(1,037.7)
Income tax expense (benefit)	(16.6)	(54.7)	0.4		(70.9)
Equity in income (loss) of subsidiaries	(931.8)	1.0		930.8	
Net income (loss)	$ (966.8)	$ (931.8)	$ 1.0	$ 930.8	$ (966.8)

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Cash Flows

Six Months Ended March 31, 2010

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Operating activities:					
Net cash provided by (used in) operating activities	$ 59.9	$ (47.0)	$ 31.4	$	$ 44.3
Investing activities:					
Capital expenditures	(0.1)	(14.3)	(0.2)		(14.6)
Proceeds from sales of assets		60.2			60.2
Net cash provided by (used in) investing activities	(0.1)	45.9	(0.2)		45.6
Financing activities:					
Increase in outstanding checks		1.5			1.5
Debt paid and repurchased	(45.3)				(45.3)
Common stock issued	0.6				0.6
Dividends paid	(5.5)				(5.5)
Net cash provided by (used in) financing activities	(50.2)	1.5			(48.7)
Effect of currency exchange rate changes on cash			1.9		1.9
Net change in cash and cash equivalents	9.6	0.4	33.1		43.1
Cash and cash equivalents at beginning of period	41.7	(0.2)	20.0		61.5
Cash and cash equivalents at end of period	$ 51.3	$ 0.2	$ 53.1	$	$ 104.6

Mueller Water Products, Inc. and Subsidiaries

Consolidating Statement of Cash Flows

Six Months Ended March 31, 2009

	Issuer	Guarantor companies	Non-guarantor companies (in millions)	Eliminations	Total
Operating activities:					
Net cash provided by (used in) operating activities	$ (25.6)	$ 23.0	$ 0.4	$	$ (2.2)
Investing activities:					
Capital expenditures	(0.3)	(14.8)	(2.5)		(17.6)
Acquisition of technology		(8.7)			(8.7)
Proceeds from sales of assets		0.3	3.9		4.2
Net cash provided by (used in) investing activities	(0.3)	(23.2)	1.4		(22.1)
Financing activities:					
Decrease in outstanding checks		4.7			4.7
Debt paid and repurchased	(6.2)				(6.2)
Common stock issued	0.5				0.5
Dividends paid	(4.0)				(4.0)
Net cash provided by (used in) financing activities	(9.7)	4.7			(5.0)
Effect of currency exchange rate changes on cash					